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OFFICE OF THE
EXECUTIVE SECRETARY
April 30, 1999

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

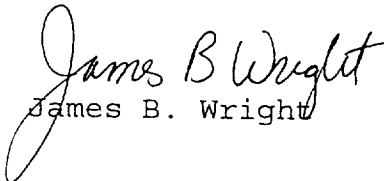
RE: Docket No. 98-00626 (UTSE 1998 Price Regulation)
UTSE Prefiled Testimony

Dear Mr. Waddell:

Enclosed for filing in the above case are the original and thirteen copies of the prefiled testimony of Mr. Steve Parrott who will be testifying on behalf of United Telephone-Southeast, Inc. in this proceeding.

A copy of the enclosure is being provided to counsel of record. Please contact me if you have any questions.

Very truly yours,


James B. Wright

JBW:sm

Attachments

C: Guy Hicks (w/encl.)
Vincent Williams (w/encl.)
Steve Parrott (w/encl.)
Dennis Wagner (w/encl.)
Laura Sykora (w/encl.)

#17174

UNITED TELEPHONE-SOUTHEAST, INC.

DIRECT TESTIMONY

OF

C. STEVE PARROTT

BEFORE THE

TENNESSEE REGULATORY AUTHORITY

DOCKET NO. 98-00626

APRIL 30, 1999

UNITED TELEPHONE-SOUTHEAST, INC.

DIRECT TESTIMONY OF C. STEVE PARROTT

BEFORE THE TENNESSEE REGULATORY AUTHORITY

DOCKET NO. 98-00626

APRIL 30, 1999

1 **Q. Please state your name and business address.**

2

3 **A. My name is Charles S. (Steve) Parrott and my business address is 14111 Capital**
4 **Boulevard, Wake Forest, North Carolina, 27587-5900.**

5

6 **Q. By whom are you employed and what is your position?**

7

8 **A. I am employed by Sprint's Mid-Atlantic Operations as Director - Regulatory Affairs**
9 **and I am testifying in this proceeding on behalf of United Telephone-Southeast, Inc.**
10 **("United").**

11

12 **Q. Please briefly outline your education, training and experience in the telephone**
13 **industry.**

14

15 **A. I hold a Bachelor of Science Degree in Business Administration (Accounting Major)**
16 **from the University of Tennessee at Knoxville and I have nearly twenty-two years of**
17 **telephony experience with Sprint Corporation. After my employment with Sprint's**
18 **regional local exchange company in Bristol, Tennessee in July, 1977 as a staff**

1 accountant, I have held numerous staff and management positions in the areas of
2 finance/accounting, information management services, and regulatory affairs.
3 Management positions include General Accounting Manager, Director - Local
4 Revenues, Director - Rate Planning and Rate Case Matters, Director - Revenues and
5 Regulatory Matters, Director - Regulatory Affairs TN/VA, and Director - State
6 Regulatory Affairs. In January, 1998, I was appointed to my present position of
7 Director - Regulatory Affairs.

8
9 **Q. What are your responsibilities as Director - Regulatory Affairs?**

10
11 **A.** I am directly responsible for all state regulatory matters affecting Sprint's incumbent
12 local telephone operations in North Carolina, South Carolina, Tennessee and
13 Virginia. In this capacity, I direct the filing of all General Subscriber Service and
14 Intrastate Access Service Tariffs with state utility commissions, the coordination of
15 all state regulatory matters, and I oversee business relations activities with other
16 local exchange companies.

17
18 **Q. Have you previously testified before regulatory agencies?**

19
20 **A.** Yes, I have testified before the Tennessee Regulatory Authority (previously the
21 Tennessee Public Service Commission), the Public Service Commission in South
22 Carolina, the North Carolina Utilities Commission and the Virginia State
23 Corporation Commission addressing the areas of finance/accounting, rate design,

1 regulatory policy, price regulation plans, rules for local exchange competition and
2 universal service issues.

3
4 **Q. What is the purpose of your testimony in this proceeding?**

5
6 **A.** The purpose of my testimony is to provide evidence of United's compliance in the
7 Company's October 16, 1998 Annual Price Regulation Filing ("Filing") with the
8 TRA approved Price Cap Annual Filing Methodology ("Methodology"), dated
9 January 23, 1997 and to address the treatment of Directory Revenues in the Filing.

10
11 **Q. Mr. Parrott, is United's 1998 Price Cap Filing in compliance with the TRA**
12 **approved Methodology?**

13
14 **A.** Yes. Essentially, two major calculations are required by the Methodology in each
15 Price Cap Filing. These calculations are the determination of the Price Regulation
16 Index or PRI and the Service Price Index or SPI. The method for performing the
17 calculation of each of these indices is detailed in the Methodology which was the
18 result of a stipulation among the parties of record in Docket 96-01423, United's
19 1996 Annual Price Cap Filing (Exhibit CSP-1). The parties in Docket 96-01423
20 were the Office of the Attorney General-Consumer Advocate Division, Citizens
21 Telecommunications Company of Tennessee, LLC, BellSouth Telecommunications,
22 Inc. and AT&T of the South Central States, Inc..

1 The Price Cap Annual Filing Methodology was approved by the TRA in their
2 September 4, 1997 order in Docket 96-01423 (Exhibit CSP-2). In their Order on
3 page 6, the TRA states:

4 **The Authority approves the methodology and formula for use in**
5 **calculating the amount of the annual price cap adjustment pursuant to**
6 **T.C.A. 65-5-209 (e) as stipulated to by the parties to this docket.**
7

8 Additionally, the TRA re-affirmed this decision in their November 30, 1998 order in
9 Docket 97-01438 (Exhibit CSP-3) which states on page 10:

10 **2. The methodology to be applied in determining the maximum**
11 **annual price adjustment for UTSE under Tenn. Code Ann. § 65-5-209**
12 **shall be the methodology approved in Docket No. 96-01423.**
13

14 In United's Filing , the maximum annual adjustment in prices is determined through
15 the PRI calculation methodology set forth in Section IV., Paragraph G. of the
16 Methodology. Per Section III., Paragraph C. of the Methodology, the PRI
17 calculation "establishes a ceiling on price changes, in the aggregate, for the Basic and
18 Non-Basic Services categories." The cumulative annual percentage change in actual
19 prices, by service category (Basic and Non-Basic), since the effective date of Price
20 Regulation, or since the last resetting of the indexes by the TRA, is determined
21 through the SPI calculation methodology set forth in Section IV., Paragraph H.

22
23 The Methodology Section IV., Paragraph G. states as follows:

24 Calculation of PRI - Per the Act, the "maximum annual adjustment . . . is
25 capped at the lesser of one-half (1/2) the percentage change in inflation for
26 the United States using the Gross Domestic Product-Price Index (GDP-PI)
27 from the preceding year as the measure of inflation, or the GDP-PI from the
28 preceding year minus two (2) percentage points." (TCA 65-5-208[sic]). The
29 Price Regulation Index is calculated annually as a) 100 plus b) the lesser of

1 one-half (1/2) the percentage change in the previous year's inflation rate or
2 the inflation rate for the previous year minus two percentage points c)
3 divided by 100 and d) multiplied by the then current value of the PRI for the
4 company. The inflation rate is defined as the percentage change in the final
5 estimate of the Chain-Weighted GDP-PI from the most recent quarter when
6 a final estimate is available. Attachment B reflects the calculation. Future
7 years will use appropriately updated inflation rates.
8

9 United followed the PRI calculation by first obtaining the Chain-Weighted Gross
10 Domestic Product-Price Index ("GDP-PI") for the most recent quarter when a final
11 estimate was available. In this case, the first quarter of 1998 Chain-Weighted GDP-
12 PI of 1.2% was used. When the Section IV., Paragraph G. calculation methodology
13 outlined above was applied, it resulted in the 1998 PRI of 100.2940. This compliant
14 calculation is clearly shown in Attachment B to the 1998 Annual Price Regulation
15 Filing which I have included in my pre-filed direct testimony as Exhibit CSP-4.
16

17 Having completed the PRI calculation, United then calculated the SPI in accordance
18 with the Methodology. The Methodology Section IV., Paragraph H. states as
19 follows:
20

21 Calculation of SPI for Basic and Non-Basic Services- The Service Price
22 Index is calculated for both Basic and Non-Basic categories as 1) the
23 annualized Proposed revenues for each category 2) divided by the annualized
24 Base revenues for each category 3) multiplied by 100. The annualized
25 Proposed revenues for each annual filing shall be the revenues for each
26 category resulting from pricing out the annualized service volumes for the
27 latest month available at the company's current prices for each service plus
28 the net effect of any proposed price changes. The service volumes for the
29 latest month available are for the month of June for the year of the annual
30 filing. The annualized Base revenues for each annual filing shall be the
31 revenues resulting from pricing out the annualized service volumes for the
32 latest month available at the company's initial index prices for each service.

1 The initial index prices are the service prices in effect on June 6, 1995 or as
2 reset by the Tennessee Regulatory Authority under TCA 65-5-207. If the
3 PRI and SPI are reset by the Authority, the same proportional relationship
4 will exist between these two indexes before and after the resetting process.
5 The SPI will be recalculated with each annual filing and as necessary for
6 interim filings. The service volumes will remain constant for interim filings
7 and will be adjusted with each annual filing.
8

9 To calculate SPI, United first gathered June 1998 demand information for both Basic
10 and Non-basic categories. Base revenues and Proposed revenues were determined
11 in accordance with Sections III., Paragraph F. and IV., Paragraph H. of the
12 Methodology. In short, Section III., Paragraph F. requires the use of price
13 multiplied by the corresponding per service revenue producing units or quantity ("P
14 x Q"), where available. These P x Q calculations can be found in the workpapers
15 identified as GSST BAS-Amended 10/16/98, GSST NB-Amended 10/16/98 and
16 Access NB-Amended 10/16/98, respectively, in the 1998 Annual Price Regulation
17 Filing, which I have included as Exhibit CSP-5. In accordance with Section IV.,
18 Paragraph H. of the Methodology, United multiplied June 1998 demand at June
19 1995 prices to establish Base revenues. United's second step in calculating SPI was
20 to calculate Proposed revenues. In accordance with Section IV., Paragraph H. of
21 the Methodology, United accomplished this by multiplying the current rates or
22 proposed rate changes, as appropriate by service, times the June 1998 demand.
23

24 Where detailed service volumes for June of the current year are unavailable, United
25 (per the language in Sections III., Paragraph F. and IV., Paragraph H.) used general
26 ledger sources to quantify June 1998 revenues for Directory Compensation-Billing

1 and Collection (workpaper identified as DIRECTORY-Amended 10/16/98), as well
2 as Miscellaneous Revenues (workpaper identified as MISC-Amended 10/16/98).
3 Also in accordance with Sections III., Paragraph F. and IV., Paragraph H. of the
4 Methodology, United's Filing includes demand for Directory Listing service based
5 upon an average quantity of listings for 1995-1997 multiplied times the June 1995
6 listing price to arrive at Base revenues and the June 1998 listing price to arrive at the
7 Proposed revenues (workpaper identified as DIRECTORY-Amended 10/16/98).
8 These workpapers are included as Exhibit CSP-6.

9
10 The end result can be found summarized in Attachment A of the 1998 Annual Price
11 Regulation Filing which I have included in my pre-filed direct testimony as Exhibit
12 CSP-7. Attachment A shows the PRI to SPI comparison separated between Basic
13 and Non-Basic. In both categories, United's SPI calculation is less than the PRI
14 calculation, therefore, the price increases proposed by United in the Filing are less
15 than the maximum annual price adjustment allowed pursuant to TCA § 65-5-209 (e).

16
17 **Q. Mr. Parrott, should United's Directory Advertising Revenues be included in**
18 **the aggregate revenues used to evaluate changes in rates in United's Filing?**

19
20 **A.** Yes, with one exception. As described above, United included Directory
21 Compensation revenues associated with the billing and collection function provided
22 to directory publishing companies for yellow page advertising, as well as, the

1 revenue from the sale of directory listings to these directory publishing companies in
2 full compliance with the Methodology.

3
4 The exception I refer to above relates to the Directory Publishing Fee (or Base Fee)
5 United received solely from Sprint Publishing and Advertising ("SPA") in June 1995
6 but no longer received in June 1998. Based upon negotiated contract changes in
7 1997 that dealt with SPA assuming greater responsibility for providing directory
8 publishing services to United and the fact SPA wished to also provide directory
9 publishing services to other local telephone companies, this fee was no longer paid
10 to United as of July 1, 1997. Although allowed by the Methodology, to include
11 elimination of this revenue stream in the Filing would allow United to increase rates
12 to a level that exceeds the proposed rates in the current filing and to recover from
13 end user customers the loss of directory revenues received by United exclusively
14 from an affiliate under contract.

15
16
17 **Q. Did United properly reflect its Directory Publishing Fee revenues in its original**
18 **1998 Price Regulation filing submitted to the Tennessee Regulatory Authority**
19 **on September 15, 1998?**

20
21 **A.** Yes it did. In the Price Cap Annual Filing Methodology approved by the Tennessee
22 Regulatory Authority in Docket 96-01423 and re-affirmed in Docket 97-01438,

1 Section IV. Paragraph H. addresses the calculation of the Service Price Index (SPI)
2 for Basic and Non-Basic Services. The fourth and fifth sentences of the SPI
3 calculation paragraph state "...Base revenues for each annual filing shall be the
4 revenues resulting from pricing out the annualized service volumes for the latest
5 month available at the company's initial index prices for each service. The initial
6 index prices are the service prices in effect on June 6, 1995 or as reset by the
7 Tennessee Regulatory Authority under TCA 65-5-207". Therefore, in its calculation
8 of the SPI for Non-Basic Services, United included the Directory Advertising – Base
9 Fee revenues from June, 1995 to determine the Base revenues for the Non-Basic
10 Directory Revenues category in the SPI calculation. The corresponding calculation
11 of the proposed Non-Basic Directory Revenues also included the June 1998
12 Directory Advertising – Base Fee revenues. Due to the contractual changes between
13 United and SPA in 1997 for directory publishing services, the inclusion of the June,
14 1995 and the June, 1998 Directory Advertising – Base Fee revenues in the SPI
15 calculation resulted in a larger gap between the PRI index and SPI index and thus
16 increased the maximum annual adjustment in prices allowed under the Price
17 Regulation Plan. As I stated previously in my testimony, United excluded the
18 Directory Advertising – Base Fee revenues in the SPI calculation since it would
19 allow the Company to recover from end user customers the loss of directory
20 revenues received by United exclusively from an affiliate under contract.

1 **Q. Did United submit an amended annual price regulation filing subsequent to**
2 **the original filing dated September 15, 1998 to reflect the change in the**
3 **treatment of Directory Advertising – Base Fee revenues in the SPI calculation?**

4
5 **A. Yes it did. On October 16, 1998, United filed an amendment to its September 15,**
6 **1998 price regulation filing.**

7
8 **Q. Mr. Parrott, how did United accomplish removing the impact of the Directory**
9 **Advertising – Base Fee revenues from the SPI calculation?**

10
11 **A. Removing the impact of the Directory Advertising – Base Fee revenue from the SPI**
12 **calculation for Non-Basic Services was accomplished by excluding these revenues**
13 **from the June, 1995 Base revenues and the June, 1998 Proposed revenues**
14 **calculations.**

15
16 **Q. What was the financial impact of removing the Directory Advertising – Base**
17 **Fee from the SPI calculation in the October 16, 1998 amended filing?**

18
19 **A. The net effect of the amended filing is United will not be recovering any of the \$3.8**
20 **million reduction in revenue associated with the Directory Advertising – Base Fee**
21 **contractual changes with SPA , as proposed in the original September 15, 1998**
22 **filing. United was not requesting price increases in the original filing at the maximum**
23 **allowed under the Price Regulation Plan (\$2.5 million below the maximum allowed).**

1 Therefore, the amended filing reduced the requested price increases by
2 approximately \$1.3 million.

3

4 **Q. Please summarize your testimony.**

5

6 **A. The Price Cap Annual Filing Methodology was approved by the TRA in their**
7 September 4, 1997 Order in Docket 96-01423 and re-affirmed by the Authority in
8 their November 30, 1998 Order in Docket 97-01438. United's 1998 Annual Price
9 Regulation Filing accurately calculates and applies the Methodology approved by the
10 TRA to determine the maximum annual price adjustment for United under TCA
11 § 65-5-209 (e).

12

13 **Q. Does this conclude your testimony?**

14

15 **A. Yes, it does.**



Exhibit CSP-1
Docket No. 98-00626

Carolina Telephone
Centel-North Carolina
Centel-Virginia
United Telephone-Southeast

James B. Wright
Senior Attorney

January 27, 1997

Chairman Lynn Greer
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Docket No. 96-01423

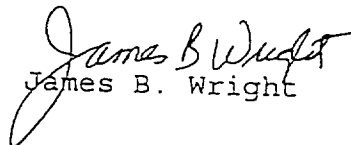
Dear Chairman Greer:

On behalf of all the parties of record in the above case, enclosed is a written Stipulation which reflects the parties' agreement regarding methodology applicable to the above case.

This Stipulation is being formally filed of record in accordance with the procedural schedule set forth in the parties' Joint Motion dated January 16, 1997.

Please contact me if you have any questions.

Very truly yours,


James B. Wright

JBW:er

CC: David Waddell (with 10 enclosures)
Dianne Neal (with enclosure)
Counsel of Record (with enclosure)
C. Steve Parrott (with enclosure)

#9669

14111 Capital Boulevard, Wake Forest, North Carolina 27587-5900
Telephone: (919) 554-7587 Fax: (919) 554-7913

CERTIFICATE OF SERVICE
(UTSE Annual Price Cap Adjustment)

The undersigned hereby certifies that the foregoing Stipulation has been served upon the following counsel of record in Docket No. 96-01423 this 27th day of January, 1997, by FAX, by hand delivery or by placing a copy of the same in the United States Mail postage prepaid and addressed as follows:

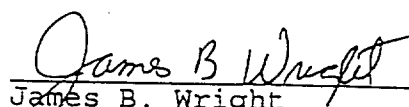
Dianne F. Neal
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505
FAX 615-741-2336

L. Vincent Williams
Office of the Attorney General
Consumer Advocate Division
426 Fifth Avenue North, 2nd Fl.
Nashville, TN 37243-0500
FAX 615-741-8724

Richard M. Tettelbaum
Citizens Telecommunications Company
of Tennessee, L.L.C.
Suite 500, 1400 16th Street, N.W.
Washington, DC 20036
FAX 202-483-9277

Guy M. Hicks
Bennett L. Ross
BellSouth Telecommunications, Inc.
333 Commerce St., Suite 2101
Nashville, TN 37201-3300
FAX 615-214-7406

John Knox Walkup
Val Sanford (AT&T)
230 Fourth Avenue, North, 3rd Floor
P. O. Box 198888
Nashville, TN 37219-8888
FAX 615-256-6339


James B. Wright

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE: UNITED TELEPHONE-SOUTHEAST, INC. TARIFF NO. 96-201
TO REFLECT ANNUAL PRICE CAP ADJUSTMENT

DOCKET NO. 96-01423

STIPULATION

This Stipulation is made this 23rd day of January, 1997 by and among United Telephone-Southeast, Inc. ("United"), BellSouth Telecommunications, Inc., Citizens Telecommunications Company of Tennessee, L.L.C., Office of the Attorney General, Consumer Advocate Division, and AT&T of the South Central States, Inc. (herein called the "Parties").

RECITALS

Each of the Parties is a party of record in Docket No. 96-01423 (the "Case") which is pending before the Tennessee Regulatory Authority ("Authority"), and together the Parties constitute all the parties of record in the case.

United is operating under a price regulation plan approved by the Tennessee Public Service Commission effective October 15, 1995.

The Parties have agreed to only those aspects of the methodology expressly stated herein to be used by United in determining its maximum price adjustments under T.C.A. Section 65-5-209(e) (the "Act"), and wish to set forth this agreement in writing.

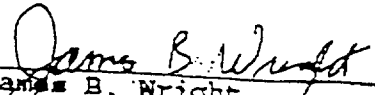
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NOW THEREFORE the Parties set forth their Agreement as follows:

1. The Parties acknowledge that this Stipulation is subject to and conditioned on approval by the Authority or its designee.
2. The stipulated aspects of the methodology to be applied to United under the Act is set forth on the attached nine page document entitled Price Cap Annual Filing Methodology dated January 23, 1997.
3. This Stipulation applies to the stipulated aspects of the methodology only. Each Party specifically reserves the right to contest any other matter or methodology to which there is not an express agreement, including but not limited to those pertaining to the tariff(s) which are or may be filed in connection with any price adjustments proposed in this proceeding.

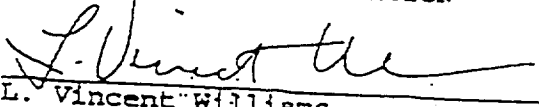
IN WITNESS WHEREOF, the parties have signed this Stipulation effective January 23, 1997.

UNITED TELEPHONE-SOUTHEAST, INC.


James B. Wright
16111 Capital Boulevard
Wake Forest, NC 27587-5900

DATED: 1/23/97

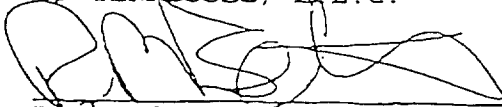
OFFICE OF THE ATTORNEY GENERAL
CONSUMER ADVOCATE DIVISION


L. Vincent Williams
426 Fifth Avenue, North, 2nd Floor
Nashville, TN 37243-0500

DATED: 1-24-97

LW

CITIZENS TELECOMMUNICATIONS COMPANY
OF TENNESSEE, L.L.C.



Richard M. Tettelbaum
Suite 500, 1400 16th Street, N.W.
Washington, DC 20036

DATED: 1/24/97

BELLSOUTH TELECOMMUNICATIONS, INC.

Guy M. Hicks
333 Commerce St., Suite 2101
Nashville, TN 37201-3300

DATED: _____

AT&T OF THE SOUTH CENTRAL STATES, INC.
By its Counsel
GULLET, SANFORD, ROBINSON & MARTIN

John Knox Walkup
Val Sanford
230 Fourth Avenue, North, 3rd Floor
Nashville, TN 37219-8888

DATED: _____

#9652

CITIZENS TELECOMMUNICATIONS COMPANY
OF TENNESSEE, L.L.C.

Richard M. Tettelbaum
Suite 500, 1400 16th Street, N.W.
Washington, DC 20036

DATED: _____

BELLSOUTH TELECOMMUNICATIONS, INC.

Guy M. Hicks
333 Commerce St., Suite 2101
Nashville, TN 37201-3300

DATED: 1-24-97

AT&T OF THE SOUTH CENTRAL STATES, INC.
By its Counsel
GULLET, SANFORD, ROBINSON & MARTIN

John Knox Walkup
Val Sanford
230 Fourth Avenue, North, 3rd Floor
Nashville, TN 37219-8888

DATED: _____

00002

GA JW

CITIZENS TELECOMMUNICATIONS COMPANY
OF TENNESSEE, L.L.C.

Richard M. Tettelbaum
Suite 500, 1400 16th Street, N.W.
Washington, DC 20036

DATED: _____

BELLSOUTH TELECOMMUNICATIONS, INC.

Guy M. Hicks
333 Commerce St., Suite 2101
Nashville, TN 37201-3300

DATED: _____

AT&T OF THE SOUTH CENTRAL STATES, INC.
By its Counsel
GULLET, SANFORD, ROBINSON & MARTIN

John E. Walker
John Knox Walkup

Val Sanford

230 Fourth Avenue, North, 3rd Floor
Nashville, TN 37219-8888

except as to Item

IV. E.

DATED: _____

1/24/97

on page 4

**Price Cap
Annual Filing
Methodology**

January 23, 1997

**United Telephone-Southeast, Inc.
Tennessee**

Table of Contents

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I. Purpose

On October 15, 1995, United Telephone-Southeast entered Price Regulation per Chapter 408 of the Public Acts of 1995 (the Act) for the state of Tennessee. In response to the Commission's order approving United's plan, the agreement below reflects the stipulated aspects of Price Cap methodology to be used by United in calculating indexes and any price adjustments to ensure compliance with the Act. Other filings implementing aspects of the stipulation may be made throughout the year in response to customer demand, changing market conditions, or to use any residual opportunity for price changes not incorporated into this filing.

II. Scope

As defined by the Act, Basic and Non-Basic Services category revenues and pricing are governed by the Act. A comprehensive list of United's Basic and Non-Basic services, except as noted, is included as Attachment A.

III. Definitions

Below are definitions of terms used throughout this document. A number of the definitions have been presented verbatim from TCA sections, as noted, to support a comprehensive explanation of the calculations.

A. Basic Local Exchange Telephone Services (Basic Services) - are telecommunications services which are comprised of an access line, dial tone, touch-tone and usage provided to the premises for the provision of two way switched voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area, Lifeline, Link-Up Tennessee, 911 Emergency Services and educational discounts existing on the effective date of the price regulation act or other services required by state or federal statute. These services shall, at a minimum, be provided at the same level of quality as is being provided on the effective date of the price regulation act. Rates for these services shall include both recurring and nonrecurring charges. (Section 65-5-208)

B. Non-Basic Services - are telecommunications services which are not defined as Basic Local Exchange Telephone Services and are not exempted under section 65-5-208 (b). Rates for these services shall include both recurring and nonrecurring charges. (Section 65-5-208)

C. Price Regulation Index (PRI) - establishes a ceiling on price changes, in the aggregate, for the Basic and Non-Basic Services categories. The PRI, as of the effective date of Price Regulation, is one hundred (100). The PRI for subsequent years shall be calculated as described in IV.G. below.

D. Service Price Index (SPI) - indicates the cumulative annual percentage change in actual prices, by service category (Basic and Non-Basic), since the effective date of Price

JBW

Regulation, or since the last resetting of the Indexes by the Tennessee Regulatory Authority. The SPIs for the Basic and Non-Basic categories are calculated by category and compared to the PRI. The Service Price Index shall be calculated as described in IV.H. below.

E. Gross Domestic Product-Price Index (GDP-PI) - is the final estimate of the Chain-Weighted Gross Domestic Product-Price Index as prepared by the U.S. Department of Commerce and published in the Survey of Current Business, or its successor. (Section 65-4-101 (h)).

F. Revenues per Category - The revenues included in each category are determined as listed below:

Local (Basic and Non-Basic) - revenues are determined from the number of revenue-producing units multiplied by the corresponding per unit price.

Service Connection Charges/Nonrecurring Charges (NRC) - revenues are determined from the number of revenue-producing units multiplied by the corresponding per unit price. To the extent that detailed service volumes can not be specifically linked to a basic service or specifically linked to a non-basic service, the company will propose a method of allocation and provide documentation supporting the allocation to the Tennessee Regulatory Authority and interested parties. Any interested party may petition the Authority for a hearing on the appropriate allocation method. For United's initial filing, the parties stipulate that the Service Connection and NRC charges are properly allocated between Basic and Non-Basic Services based upon the percentage of revenues where charges are applicable for each category.

Message Toll, Switched Access, Opportunity 800, WATS - revenues are derived from minutes of use multiplied by the corresponding per minute price.

Switched Access - Dedicated, Special Access - revenues are derived from the number of units multiplied by the corresponding per unit price.

Billing and Collection, Public and Semi-Public Phone Revenue, Cellular Interconnection, Directory Compensation, Miscellaneous - revenues are determined from the number of revenue-producing units multiplied by the corresponding per unit price. To the extent that detailed service volumes are not available for any such service, the Company will propose a method for determining these revenues and provide documentation supporting its calculations to the Tennessee Regulatory Authority and interested parties. Any interested party may petition the Authority for a hearing on the proposed method for determining these revenues.

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G. Revenue Producing Units - The units included in the service volumes are revenue-producing units only. Company official units are excluded from the service volumes.

IV. Methodology

A. Increases in the Basic Local Exchange category - cannot occur until October 15, 1999.

B. Call Waiting - Rates for call waiting have been set at \$3.00 for residence customers and \$3.90 for business customers until October 15, 1999 per the Act.

C. Interconnection Services - Prices for interconnection services are capped at the lesser of one-half (1/2) the percentage change in the previous year's inflation rate or the inflation rate for the previous year minus two percentage points (TCA 65-5-208). The inflation rate is defined as the percentage change in the final estimate of the Chain-Weighted GDP-PI from the most recent quarter when a final estimate is available. For this filing, the 1996 first quarter inflation rate is used. Subsequent evaluations for United Telephone-Southeast, Inc. will continue to use first quarter estimated inflation rates. Interconnection includes the ability for telecommunications carriers, including Competitive Local Exchange Companies, Cellular service providers, Wireless service providers, etc., to interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers and obtain access to network elements on a non-discriminatory basis dependent on the cost of providing the network element (per the Telecommunications Act of 1996, Section 251, Interconnection).

D. New Services - New tariffed services will be included in the SPI for the appropriate category in the first annual filing after the service has been available for six months. The price in effect for the new service when it is added to the index calculations, divided by the value of the Service Price Index for the previous anniversary date, shall be the initial index price for the new service.

E. Revenue Neutral Filings - Revenue neutral filings are defined as filings that result in no increase in aggregate revenues. Revenue neutral filings will not include SPI calculations when services within the same category are affected.

F. Promotional Pricing - The permanent approved rates shall be used in calculating revenues for services where rates are discounted for promotional purposes during the year.

G. Calculation of PRI - Per the Act, the "maximum annual adjustment...is capped at the lesser of one-half (1/2) the percentage change in inflation for the United States using the

JBW-1

Gross Domestic Product-Price Index (GDP-PI) from the preceding year as the measure of inflation, or the GDP-PI from the preceding year minus two (2) percentage points" (TCA 65-5-203). The Price Regulation Index is calculated annually as a) 100 plus b) the lesser of one-half (1/2) the percentage change in the previous year's inflation rate or the inflation rate for the previous year minus two percentage points c) divided by 100 and d) multiplied by the then current value of the PRI for the company. The inflation rate is defined as the percentage change in the final estimate of the Chain-Weighted GDP-PI from the most recent quarter when a final estimate is available. Attachment B reflects the calculation. Future years will use appropriately updated inflation rates.

H. Calculation of SPI for Basic and Non-Basic Services - The Service Price Index is calculated for both Basic and Non-Basic categories as 1) the annualized Proposed revenues for each category 2) divided by the annualized Base revenues for each category 3) multiplied by 100. The annualized Proposed revenues for each annual filing shall be the revenues for each category resulting from pricing out the annualized service volumes for the latest month available at the company's current prices for each service plus the net effect of any proposed price changes. The service volumes for the latest month available are for the month of June for the year of the annual filing. The annualized Base revenues for each annual filing shall be the revenues resulting from pricing out the annualized service volumes for the latest month available at the company's initial index prices for each service. The initial index prices are the service prices in effect on June 6, 1995 or as reset by the Tennessee Regulatory Authority under TCA 65-5-207. If the PRI and SPI are reset by the Authority, the same proportional relationship will exist between these two indexes before and after the resetting process. The SPI will be recalculated with each annual filing and as necessary for interim filings. The service volumes will remain constant for interim filings and will be adjusted with each annual filing.

V. Attachments

A. List of Basic and Non-Basic Services as of 6/30/96

B. 1996 PRI Calculation

gbcw

Attachment A

List of Basic and Non-Basic Services as of 6/30/96

Basic Services	Tariff	Section	Revenue Category
ABC Network Access Registers (NARS) (plus one line per NAR)	GSST	13.18.7 B	Local
Exchange Access and Usage (including Key/PBX trunks)	GSST	3	Local and Measured
In-classroom Computer Access	GSST	3.12.3	Local
Lifeline Service	GSST	3.10.3	Local
Link-up Tennessee	GSST	4.11	Local
Shared Tenant Service	GSST	3	Local
Touch Tone	GSST	13.7.2	Local
Other Services required by State and Federal Statutes			
Non-Basic Services	Tariff	Section	Revenue Category
ABC Intercom Lines & Features (less one line per NAR)	GSST	13.18.7	Local
ABC Medical Community	GSST	13.18.8	Local
Analog Private Lines	GSST	22.2.1	Local
Billing and Collection	Access	8	Billing and Collection
Coin Telephone Service - Pub and Joint Oper	GSST	7	Public and Semi-Public Phone
Custom Calling Services and Packages	GSST	13.9	Local
DID Service	GSST	13.14.2	Local
Directory Assistance	Not in Tariff		Local
Directory Compensation	Contract		Directory Compensation
Directory Listings (Foreign, Add'l, etc)	GSST	6	Local
E-911	GSST	21	Local
Enterprise Service (Special Reverse Toll)	GSST	13.8	Local
Express Touch Services	GSST	13.20	Local
Extension Service	GSST	13.1	Local
Frame Relay Service	New Service		Local
FX Service	GSST	9.1.2	Local
Interconnection of Mobile Service	GSST	15.10	Cellular Interconnections
ISDN BRI and PRI	GSST	12	Local
Maintenance of Service Charge	GSST	15.4	Local
MessageLine	GSST	13.24	Local
MTS	IMTS		Message Toll
Miscellaneous	Contract		Miscellaneous
N11 Service	GSST	10	Local
Operator Service	GSST	3.18	Local
Optional Calling Plans	GSST	20	Local
PBX Night, Sunday, etc. Arrangements	GSST	11.3.2	Local
Public Announcement Service	GSST	13.12	Local
Restriction Services	GSST	13.17	Local
Station Message Desk Interface (SMDI)	GSST	13.22	Local
Switched and Special Access	Access	6.7	Switched Access-Ded Switched Access Special Access
Telecommunications Service Priority System	GSST	13.21	Local
Telephone Answering Service	GSST	8.2	Local
Tie Service	GSST	13.3	Local
United Digilink/Translink	GSST	22.4 & 22.5	Local
United Flexlink	GSST	22.6	Local
United Lightlink	GSST	22.7	Local
United Switchlink	GSST	13.23	Local
WATS	GSST	19.4	Local, WATS, Opportunity 800

* Categorization as Basic or Non-Basic is an issue to be determined in this proceeding.

gbc

1996 PRI Calculation

Input:

Inflation Rate 2.4
First Qtr 1995 vs. First Qtr 1996

Calculation:

Step 1:
Base Rate of 100 100

Step 2:
Plus: The lessor of:

1/2 Inflation Rate 1.2
or
Inflation Rate - 2% 0.4

= 100.4

Step 3:
Divided by 100 1.004

Step 4:
Multiplied by the current PRI (100) 100.4



26 - July 1956

SURVEY OF CURRENT BUSINESS

8. Supplementary Tables

Table B.1.—Percent Change From Preceding Period in Selected Series
(Percent)

	Seasonally adjusted at annual rates							Seasonally adjusted at annual rates								
	1954	1955	1955						1954	1955	1955					
			IV	I	II	III	IV	I			IV	I	II	III	IV	I
Gross domestic product:																
Current dollars	5.8	4.3	5.4	3.9	2.8	5.8	2.3	4.3								
Chain-type quantity index	2.5	2.0	3.2	1.5	1.5	3.5	1.5	2.2								
Chain-type price index	2.3	2.3	2.2	2.4	2.3	2.3	2.7	2.1								
Implicit price deflator	2.2	2.4	2.2	3.2	2.3	2.2	1.8	2.1								
Personal consumption expenditures:																
Current dollars	5.5	4.0	5.2	3.4	4.1	4.2	2.6	5.3								
Chain-type quantity index	3.0	2.4	3.2	1.5	3.4	2.8	1.2	3.5								
Chain-type price index	2.4	2.4	2.0	2.7	2.8	1.5	1.7	2.4								
Implicit price deflator	2.4	2.3	2.0	2.5	2.7	1.4	1.4	2.1								
Durable goods:																
Current dollars	9.5	4.4	12.4	-6.2	7.5	8.1	-2.0	5.4								
Chain-type quantity index	7.2	2.4	12.5	-6.7	7.0	9.2	1.3	5.5								
Chain-type price index	2.1	1.4	-1.1	3.1	1.8	-1.7	-1.2	1.2								
Implicit price deflator	2.1	1.0	-2.2	2.7	1.5	-1.2	-2.3	-1.1								
Nondurable goods:																
Current dollars	4.4	3.9	4.4	3.5	4.2	1.2	.9	7.7								
Chain-type quantity index	3.1	2.3	3.2	2.4	1.9	.5	-1.3	3.5								
Chain-type price index	1.3	1.7	1.2	1.0	2.6	.7	1.3	3.2								
Implicit price deflator	1.2	1.8	1.1	1.1	2.6	.7	1.3	3.2								
Services:																
Current dollars	5.2	5.2	4.3	5.5	5.3	5.0	4.5	4.2								
Chain-type quantity index	2.1	2.3	1.4	2.1	3.4	2.2	2.2	2.5								
Chain-type price index	3.0	3.1	2.9	3.5	3.4	2.4	2.4	1.9								
Implicit price deflator	3.0	3.0	2.9	3.4	3.3	2.4	2.3	1.7								
Gross private domestic investment:																
Current dollars	10.5	5.0	8.8	8.8	-7.9	9.7	-1.0	1.9								
Chain-type quantity index	14.3	3.2	5.9	7.3	-9.7	1.4	-3.7	3.0								
Chain-type price index	1.9	1.9	1.4	1.0	3.0	2.3	.5	1.1								
Implicit price deflator	1.9	1.7	1.5	1.2	2.1	2.1	-1.3	-1.0								
Fixed investment:																
Current dollars	12.3	7.7	9.5	9.4	.9	8.2	3.7	3.7								
Chain-type quantity index	10.1	6.1	6.4	5.3	-1.4	5.3	1.0	11.3								
Chain-type price index	1.9	1.8	1.7	.5	2.7	2.3	.1	.5								
Implicit price deflator	1.9	1.5	1.2	.7	2.4	1.8	-1.3	-1.0								
Nonfixed investment:																
Current dollars	11.4	10.7	12.0	15.5	6.1	6.2	1.5	10.7								
Chain-type quantity index	9.2	9.2	12.2	15.3	3.5	5.2	2.1	12.4								
Chain-type price index	1.4	1.2	-1.1	.1	2.8	2.0	.1	.1								
Implicit price deflator	1.4	.9	-2.2	.2	2.5	1.2	-1.2	-1.5								
Structure:																
Current dollars	4.8	10.8	10.3	12.9	4.5	10.3	2.3	9.0								
Chain-type quantity index	1.5	7.2	13.0	9.4	3.4	6.2	.9	7.9								
Chain-type price index	3.3	3.3	4.9	2.4	2.9	3.8	1.5	1.3								
Implicit price deflator	3.3	3.3	4.9	2.5	3.1	3.8	2.0	1.0								
Producers' durable equipment:																
Current dollars	14.1	10.8	9.7	15.5	5.0	5.2	1.4	11.3								
Chain-type quantity index	12.2	10.5	11.9	17.4	3.7	4.9	4.0	14.1								
Chain-type price index	.7	.4	-1.6	-7.7	2.7	1.4	-5.5	-4.4								
Implicit price deflator	.7	.1	-2.0	-7.7	2.3	.4	-2.4	-2.4								
Residential:																
Current dollars	14.3	.7	4.4	-4.2	-11.1	12.5	4.8	7.3								
Chain-type quantity index	10.8	-2.3	-1.1	-6.3	-13.3	9.2	6.4	7.4								
Chain-type price index	3.1	3.1	4.5	2.2	2.8	2.9	2.3	-1.1								
Implicit price deflator	3.1	3.1	4.5	2.2	2.5	3.0	2.2	-1.1								
Exports of goods and services:																
Current dollars	9.4	11.4	17.0	5.1	9.7	8.1	8.8	1.1								
Chain-type quantity index	8.3	8.1	15.3	2.6	4.9	9.0	11.0	2.0								
Chain-type price index	1.1	3.3	2.2	5.5	5.3	.8	.8	.4								
Implicit price deflator	1.1	2.9	1.5	5.4	4.5	.1	-2.2	-1.9								
Exports of goods:																
Current dollars	10.8	14.2	23.0	10.3	11.2	9.5	10.5	-5								
Chain-type quantity index	10.1	10.5	21.2	3.7	8.5	9.6	14.1	2.1								
Chain-type price index	.5	3.6	2.7	6.9	5.3	.8	-1.6	-5								
Implicit price deflator	.5	3.0	1.5	6.3	4.8	0	-2.1	-2.3								
Exports of services:																
Current dollars	8.2	4.9	2.4	2.7	4.7	4.3	4.5	5.6								
Chain-type quantity index	4.0	2.5	1.8	-3	4	3.5	3.1	1.9								
Chain-type price index	2.1	2.6	.9	3.1	5.2	.4	1.4	3.9								
Imports of services:																
Current dollars	5.5	4.3	-2.5	7.0	10.1	0	4.5	11								
Chain-type quantity index	5.2	2.0	-4.2	11.0	-2.5	1.2	8.5	12								
Chain-type price index	1.3	2.3	3.8	4.1	14.0	-1.4	4.4	4								
Implicit price deflator	1.3	2.7	4.2	4.1	14.1	-1.4	4.4	4								
Government consumption expenditures and gross investment:																
Current dollars	1.3	3.3	1.7	3.5	4.2	1.4	-1.5	6								
Chain-type quantity index	.5	.1	-1.1	1.1	.5	-.7	-.1	1								
Chain-type price index	2.0	3.4	3.2	5.1	3.5	2.1	4.4	4								
Implicit price deflator	2.0	3.3	3.1	5.0	3.3	2.0	4.0	4								
Federal:																
Current dollars	-1.1	.1	-2.1	-2.8	2.1	-4.4	-6.5	8								
Chain-type quantity index	-2.7	-2.5	-5.3	-6.3	-1.1	-5.5	-12.5	5								
Chain-type price index	2.7	3.9	4.2	6.2	3.2	1.7	7.5	1.2								
Implicit price deflator	2.7	3.7	4.0	5.9	3.3	1.6	7.0	2.2								
National defense:																
Current dollars	-2.3	-1.5	-12.1	-2.3	6.3	-7.3	-2.5	1.7								
Chain-type quantity index	-5.1	-5.0	-15.1	-7.0	.9	-8.1	-12.0	3.2								
Chain-type price index	2.4	3.7	3.8	5.5	4.4	1.2	3.5	2.1								
Implicit price deflator	2.4	3.4	3.5	5.2	4.4	.8	2.8	4.2								
Nondefense:																
Current dollars	3.0	4.1	25.2	2.1	-4.2	1.5	-1.2	10.1								
Chain-type quantity index	-7.7	-2.2	22.2	-4.8	-6.2	-1.2	-14.5	10.1								
Chain-type price index	3.5	4.4	5.1	7.5	5.4	1.2	12.0	6								
Implicit price deflator	3.5	4.3	5.1	7.2	1.7	3.2	15.7	6								
State and local:																
Current dollars	4.0	5.4	4.2	5.8	5.3	5.1	3.8	4.5								
Chain-type quantity index	2.5	2.4	1.2	2.2	2.1	2.7	1.5	4								
Chain-type price index	1.5	3.0	2.5	4.4	3.2	2.2	2.3	5.5								
Implicit price deflator	1.5	3.0	2.5	4.4	3.2	2.3	2.3	5.4								
Addenda:																
Final sales of domestic product:																
Current dollars	5.2	4.0	5.8	4.0	4.2	5.1	3.5	5.								

BEFORE THE TENNESSEE REGULATORY AUTHORITY

SEP - 4 1997

NASHVILLE, TENNESSEE

IN RE:

UNITED TELEPHONE-SOUTHEAST, INC.)	Docket No.
TARIFF NO. 96-201 TO REFLECT ANNUAL)	96-01423
PRICE CAP ADJUSTMENT)	

ORDER APPROVING IN PART AND DENYING IN PART TARIFF NO. 96-201

This matter is before the Tennessee Regulatory Authority ("Authority") upon receipt of the above captioned tariff filing by United Telephone-Southeast, Inc. ("United" or the "Company"). The tariff was originally filed September 12, 1996, with a proposed effective date of October 15, 1996. By various Orders of the Authority, the tariff was suspended until June 6, 1997.

The filing was made pursuant to Tenn. Code Ann. § 65-5-209(e). This Section permits price regulated telephone companies such as United to adjust prices for Non-Basic services so long as the annual adjustments do not exceed certain limitations imposed by Tennessee law. The filing sought approval of revenue adjustments which result from a proposed charge for directory assistance and proposed reductions in certain access charge rates.

Petitions to intervene were filed by the Consumer Advocate Division, Office of the Attorney General ("Consumer Advocate" or "Advocate"), Citizens Telecommunications Company of Tennessee, L.L.C. ("Citizens"), BellSouth Telecommunications, Inc., ("BellSouth"), and AT&T Communications of the South Central States, Inc. ("AT&T"). All of the Petitions to intervene were granted.

By Order and Notice dated December 5, 1996, the Authority appointed Chairman Lynn Greer as Hearing Officer. Pre-Hearing Conferences were held in the above-captioned matter on Tuesday, December 10, 1996, Tuesday, December 17, 1996, and Tuesday, January 14, 1997, in Nashville, Tennessee. The parties were represented by counsel as follows:

JAMES B. WRIGHT, Senior Attorney, United, 14111 Capital Boulevard, Wake Forest, North Carolina 27587-5900, appearing on behalf of United.

L. VINCENT WILLIAMS, Consumer Advocate, 426 Fifth Avenue N., 2nd Floor, Cordell Hull Building, Nashville, Tennessee 37243-0500, appearing on behalf of the Consumer Advocate.

GUY M. HICKS, General Counsel-Tennessee, BellSouth Telecommunications, Inc., 333 Commerce Street, Suite 2101, Nashville, Tennessee 37201-3300, appearing on behalf of BellSouth.

RICHARD M. TETTELBAUM, Associate General Counsel, Citizens Telecommunications Company of Tennessee, L.L.C., Suite 500, 1400 16th Street, N.W., Washington, DC 20036, appearing on behalf of Citizens.

JOHN KNOX WALKUP, and VAL SANFORD, Gullett, Sanford, Robinson & Martin, 230 Fourth Avenue North, 3rd Floor, Nashville, TN 37219-8888, and JIM LAMOUREAX, Attorney, AT&T Corporation, 1200 Peachtree Street, NE, Atlanta, GA 30309, appearing on behalf of AT&T.

At the December 10, 1996, Pre-Hearing Conference, the parties agreed that a Protective Order was appropriate for use in this proceeding. A proposed Protective Order was submitted to the parties herein for approval. Subsequent to approval by the parties, the Protective Order was approved by the Authority at its December 17, 1996, Agenda Conference. Extensive discovery was conducted by the parties throughout the proceedings pursuant to agreed upon schedules.

The parties met informally on different occasions in an attempt to reach agreement with respect to the methodology for calculating the maximum annual price adjustment.

Preliminary agreement as to methodology was reported to the Hearing Officer at the December 17, 1996, Pre-Hearing Conference. By letter dated January 27, 1997, a written Stipulation among all the parties as to certain aspects of methodology was submitted to the Hearing Officer for approval. The Stipulation was recommended for approval by the Hearing Officer in his Initial Order dated January 27, 1997, and approved by the Authority at its February 4, 1997, Authority Conference.

On January 28, 1997, United filed revised tariffs and supporting data to reflect the agreed upon methodology contained in the Stipulation. In the revised filing, United calculated a maximum annual adjustment of \$67,151. United's revised tariffs proposed a directory assistance charge of 29 cents per inquiry for residence and business access lines, with an allowance of three inquiries per billing period without a charge. A customer could inquire and receive two numbers during each inquiry. The directory assistance charge was designed to increase revenues by \$1,167,063.

United also proposed a reduction in certain access charges. The Company proposed a reduction in the switched access interconnection charge of \$296,252 decreasing the rate from .00348 cents to .002058 cents per minute of use. United additionally proposes a reduction in the carrier common line terminating rate of \$803,660 decreasing it from .025110 cents to .018570 cents per minute of use. The parties prefiled testimony pursuant to an agreed schedule. Direct testimony was filed February 14, 1997, rebuttal testimony was filed February 21, 1997, and surrebuttal testimony was filed February 26, 1997. A hearing was held on March 11, 1997, pursuant to the Authority's February 28, 1997, Order and as set forth in the Authority's February 24, 1997, Notice of Hearing.

At the close of the March 11, 1997, hearing, the parties were instructed to file post-hearing briefs regarding the legislative history of Tenn. Code Ann. § 65-5-208 as it related to directory assistance. In response to the Authority's request, various briefs, motions and other pleadings and documents were filed by the parties. The resolution of the motions and the disposition of the briefs and other pleadings were addressed in the Authority's Order dated May 1, 1997. The May 1, Order limited the filing of post-hearing briefs to the directory assistance issue as originally requested by the Authority.

On May 20, 1997, the Directors considered the issues raised in this case. Chairman Greer, as Hearing Officer, read the charges of law to the Directors pursuant to the provisions of Tenn. Code Ann. § 4-5-301. The Hearing Officer identified eight issues. The Directors' discussion, findings of fact, and conclusions of law as to the standards to be followed under the price regulation statutes, the appropriate annual revenue adjustment and the eight identified issues were as follows:

Price Regulation

United elected to be regulated as a price regulated company effective October 15, 1995, as set forth in the Tennessee Public Service Commission's Orders dated September 20, 1995, and October 13, 1995, in Docket No. 95-02615. This election was authorized by the enactment of Public Chapter 408 that became effective on June 6, 1995 (the "Act").

The maximum annual increase in rates permitted by United as a price regulated company is governed by Tenn. Code Ann. § 65-5-209(e) which reads as follows:

(e) A price regulation plan shall maintain affordable Basic and Non-Basic rates by permitting a maximum annual adjustment that is capped at the lesser of one half (1/2) the percentage

change in inflation for the United States using the gross domestic product-price index (GDP-PI) for the preceding year as the measure of inflation, or the GDP-PI from the preceding year minus two (2) percentage points. An incumbent local exchange telephone company may adjust its rates for Basic local exchange telephone services or Non-Basic services only so long as its aggregate revenues for Basic local exchange telephone services or Non-Basic services generated by such changes do not exceed the aggregate revenues generated by the maximum rates permitted by the price regulation plan.

This Section permits a price regulated company to increase rates for Basic or Non-Basic services by an amount equal to the lesser of one half the inflation rate or the inflation rate less two percent. Consistent with the Stipulation and based on the methodology approved by this Authority herein, the Authority finds that the maximum annual revenue adjustment for United for the twelve month period October 15, 1995, to October 14, 1996, is .4 percent or \$67,151 annually.

Although the foregoing Section of the Act permits increases in both Basic and Non-Basic services, another provision of Tennessee law prohibits a price regulated company from increasing Basic services for the first four years it operates under price regulation. This limitation is in Tenn. Code Ann. § 65-5-209(f). Since United is proposing increases relating to its second year as a price regulated company, the limitation in Tenn. Code Ann. § 65-5-209(f) applies to United's Basic service rates. It is thus critical to determine whether a service is Basic or Non-Basic in order to determine the amount of the maximum annual adjustment permitted for each category of service. Tenn. Code Ann. § 65-5-208(a) defines these terms as follows:

(1) Basic local exchange telephone service are telecommunications services which are comprised of an access line, dial tone, touch-tone and usage provided to the premises for the provision of two-way switched voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area,

Lifeline, Link-Up Tennessee, 911 Emergency Services and educational discounts existing on June 6, 1995, or other services required by state or federal statute. These services shall, at a minimum, be provided at the same level of quality as is being provided on June 6, 1995. Rates for these services shall include both recurring and nonrecurring charges.

(2) Non-Basic services are telecommunications services which are not defined as basic local exchange services and are not exempted under subsection (b). . .

Issue 1: Methodology

The parties to this docket filed a stipulation on January 27, 1997, in which they agreed to the methodology and formula for use in calculating the amount of the annual price cap adjustment pursuant to Tenn. Code Ann. § 65-5-209(e). The methodology set forth is essentially the same as proposed by the staff of the Tennessee Public Service Commission for proposed new rule Chapter 1220-4-8, the local competition rules in 1995.

The Authority approves the methodology and formula for use in calculating the amount of the annual price cap adjustment pursuant to T.C.A. 65-5-209(e) as stipulated to by the parties to this docket.

Issue 2: Five Line Tariff

The first matter considered by the Directors on May 20, 1997, concerned a tariff filing by United, separate from this proceeding, which limited the number of access lines that could be charged a residential rate, to five per location.¹ A substantially identical proceeding involving a BellSouth tariff is pending in Docket No. 96-01422. The Directors

¹ As background, the five-line tariff, tariff number 95-217 was approved by the Tennessee Public Service Commission in October of 1995.

— concluded that the Consumer Advocate Division's concerns regarding United's five line tariff was not properly before the Authority in this proceeding and the Consumer Advocate Division could pursue its concerns regarding United's tariff in a separate complaint and/or in the pending Docket No. 96-01422.

Issue 3: Secretarial Lines

— When the Act went into effect on June 6, 1995, United had a tariff in effect regarding secretarial lines that provided, in Section U2.3.5(c)6, that a residence rate would apply to "secretarial line terminations of residence main service terminating as extension lines on the premises of a telephone answering bureau." On October 25, 1995, after United had entered into price regulation, the company revised its tariffs regarding residence and business classifications. This revision omitted the language previously contained in Tariff Section U2.3.5(c)6. The Authority finds that United is obligated to interpret and apply the provisions of Section U2.3.5 as contained in its October 25, 1995, tariff in a manner consistent with the tariff language contained in its tariff Section U2.3.5(c)6 as in effect on June 6, 1995.

Issue 4: ABC Service and Centrex Service

— United offered a central office based business service called Advanced Business Connection Service ("ABC Service") on the date the Act went into effect, that is, on June 6, 1995. As the result of a complaint filed by a United business customer, a contested case regarding United's ABC Service was initiated (Docket No. 96-00462). Following an investigation and a hearing, a final Order was rendered by the Authority on October 3,

1996. The Authority entered a Supplemental Order dated January 22, 1997, modifying and approving a stipulation between the parties regarding ABC Service. These Orders required United, among other things, to revise the terms of its central office based service offering. United filed a tariff in response to these Orders. The subsequent tariff included the grandfathering of ABC Service and a revised service offering called Centrex. This tariff was approved by the Authority in Docket No. 96-01492 by Order dated January 22, 1997.

Copies of United's proposed tariffs to obsolete ABC Service and to introduce Centrex Service were originally filed in September, 1996, with a revision filed in December, 1996. The initial filing was served on the Consumer Advocate Division when filed. The Consumer Advocate Division did not intervene or otherwise participate in these filings at the time they were under consideration by the Authority. The Consumer Advocate Division has now raised a concern regarding whether approval of the Centrex tariff constituted an improper increase of a Basic service contained in the ABC Service tariff. The Authority finds that the Centrex Service is a unique bundling of products and pricing arrangements and therefore was not a service offered on June 6, 1995. As a new service, the Centrex tariff was specifically considered and approved by the Authority in a prior Docket and not found to be contrary to law. Accordingly, there is no legal support for the concern raised by the Consumer Advocate, and its complaints regarding United's obsoleting ABC Service and introducing Centrex Service. Therefore, the Advocate's complaints are hereby denied.

Issue 5: 911 Services

United proposed treating certain service elements of 911 Emergency Services as Non-Basic services. Specifically, United treated Automatic Number Identification (ANI), Automatic Location Identification (ALI), and Selective Routing as Non-Basic services. The Consumer Advocate contended all elements of 911 emergency services were Basic services under the Act, which specifically listed 911 emergency services as a basic local exchange service under Tenn. Code Ann. § 65-5-208. Section 65-5-208(a) of the Act states in relevant part:

"Basic local exchange telephone services" are telecommunications services which are comprised of an access line, dial tone, touch-tone and usage provided to the premises for the provision of two-way switched voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area, Lifeline, Link-Up Tennessee, 911 Emergency Services and educational discounts existing on June 6, 1995, or other services required by state or federal statute. These services shall, at a minimum, be provided at the same level of quality as is being provided on June 6, 1995. Rates for these services shall include both recurring and nonrecurring charges. (Emphasis Added").

United's position was that in order for a service to be Basic service, it must have an access line, dial tone, touch-tone and usage. Since ANI, ALI and Selective Routing are features which do not contain all four elements, United concluded they could not be a part of Basic Services. United further argued that this provision sets forth everything that competing telecommunications service providers must offer when offering Basic local exchange service, and the only requirement with respect to 911 is to provide access to 911 emergency service, and not other elements or features. As a consequence, United argued, other elements and features associated with emergency services such as ANI and ALI are not a part of Basic service.

After careful consideration of the arguments of both parties, the evidence in the record, and the language of the statute in question, the Authority finds that notwithstanding the company's interpretation of this statute, the specific language in Tenn. Code Ann. § 65-5-208 is clear and unequivocal when it states that 911 Emergency Services are categorized as a Basic service. It appears from the plain language of these statutes that the legislature did not intend to limit 911 services to mere access to an operator, but instead wanted to provide access to all services associated with 911. Accordingly, the Authority concludes that 911 emergency services, including features such as ANI, ALI and Selective Routing, are Basic services under the Act.

Issue 6: Educational Discounts

Similar to the issue regarding 911 Emergency Services, United contended that a portion of the lines and features which were included as a part of its educational discounts offered on June 6, 1995, were Non-Basic services. United specifically argued that the private lines which were subject to educational discounts on June 6, 1995, were Non-Basic services. United again relied on its interpretation of Section 65-5-208 arguing that a Basic service must have an access line, dial tone, touch-tone and usage.

The Consumer Advocate asserted that all educational discounts existing on June 6, 1995, constitute Basic service as defined in Tenn. Code Ann. § 65-5-208. The Authority rejects United's arguments and accepts the Advocate's assertion that the General Assembly intended educational discounts to be classified as Basic service. In fact, the statute is clear and unambiguous because it specifically includes educational discounts in the list of services comprising basic local exchange telephone services.

Issue 7: ABC Service Lines

United contended that for its ABC Service, those lines in excess of the number of Network Access Registers ("NAR") should be considered as part of Non-Basic service. These ABC Service lines were considered by United as intercom lines. United distinguished intercom lines from access lines in that intercom lines did not allow connection to the switched network. Only when an ABC Service line was associated with a NAR did United believe the line had access to dial tone, usage and touch-tone into the local calling area under its interpretation of Tenn. Code Ann. § 65-5-208.

The Consumer Advocate Division witness noted that United's ABC Service tariff made no mention of an intercom line. The witness contended that all ABC Service are Basic, noting that all ABC Service lines were treated the same, based on the language United developed and placed in its tariff. In addition, the Company witness acknowledged that data transmission could occur using any of the ABC Service lines.

Although United's current tariffs or tariffs in effect on June 6, 1995, did not contain any rate or reference to ABC Service intercom lines, it now attempts to introduce a distinction between ABC Service lines with a NAR and those without a NAR. While a NAR is required to complete a call from an ABC line, a NAR is not directly associated with any one line. Therefore, all ABC Service lines have the same functionality for making and receiving outside calls. Thus, the Authority finds that allowing this distinction and subsequent classification of access ABC Service lines as a Non-Basic service is an indirect method of raising rates on an otherwise basic service. Accordingly, the Authority finds that all ABC lines with or without a NAR are Basic service.

Issue 8: Directory Assistance

United proposed a charge for directory assistance as Non-Basic service in this filing because, in its opinion, language in Tenn. Code Ann. § 65-5-208(a)(1) did not explicitly classify directory assistance as a Basic service. The Consumer Advocate argued that directory assistance was a part of Basic service when United entered price regulation on June 6, 1995. As a result, the four (4) year price cap limitation prohibited United from charging for directory assistance, since the rate on June 6, 1995, was zero.

Tenn. Code Ann. § 65-5-208(a)(1) of the Act defines Basic local exchange telephone service as "...an access line, dial tone, touch-tone, and usage provided to the premises for the provision of two-way switched voice or data transmission within a local calling area, Lifeline, Link-Up Tennessee, 911 emergency services, and educational discounts existing on June 6, 1995, or other services required by state or federal statute." United maintained that this definition contains no reference to directory assistance. Further, United cited Tenn. Code Ann. § 65-4-124(c) in support of its position on directory assistance.

Tenn. Code Ann. § 65-4-124(c) provides that the TRA shall promulgate rules that will "ensure that all telecommunication service providers, [such as United,] who provide basic local exchange telephone service or its equivalent shall provide each customer a basic White Pages directory listing, access to 911 Emergency Services, free blocking for 900/976-type services, access to telecommunications relay services, Lifeline, Link-Up, . . . and educational discounts existing on June 6, 1995." Directory assistance is not listed in Tenn. Code Ann. § 65-4-124(c).

Due to the omission by the legislature of the words "directory assistance" from the language of Tenn. Code Ann. §§ 65-4-124(c) and 65-5-208(a)(1), United maintained that directory assistance does not meet the statutory definition for Basic local exchange telephone service. According to United, it is properly identified as a Non-Basic service as defined in Tenn. Code Ann. § 65-5-208(a)(2), and as such is subject to a possible increase in price in accordance with Tenn. Code Ann. § 65-5-209(e).

The Consumer Advocate Division claimed that directory assistance is a Basic service under the term "usage" as found in Tenn. Code Ann. § 65-5-208(a)(1). Mr. Hickerson of the Consumer Advocate Division stated that, "Usage of directory assistance was included when a customer subscribed to either residential or business service and paid the Basic local exchange service rate as provided under the company's tariff approved by the Tennessee Public Service Commission."² He further stated that, "If the company now charges for directory assistance on a usage-sensitive basis, the customer is no longer receiving the level of service that was being provided when the customer paid the Basic rate charge on or before June 6, 1995."³ Thus, it was also the position of the Consumer Advocate that this alleged change in level of service violated Tenn. Code Ann. § 65-5-208(a)(1).

United rejected the Consumer Advocate Division's argument that the term "usage" in the statute has the meaning of usual, habitual, customary, or accepted practice. The company maintained that usage is solely related to a subscriber's access to the public switch network.

² See pages 13-14 of Mr. Hickerson's pre-filed direct testimony, filed on February 14, 1997.

³ See pages 14-15 of Mr. Hickerson's pre-filed direct testimony, filed on February 14, 1997.

Additionally, United disagreed with the Consumer Advocate Division's suggestion that price changes cause erosion in the level of quality of the service. United's witness, Mr. Parrott, testified that, "If a price change were to be judged as a change in the level of quality offered by the company, Tennessee law would not allow for any price changes. However, this is contrary to Tennessee law. Tenn. Code Ann. § 65-5-209 specifically permits and describes how price adjustments can be made for both Basic and Non-Basic services."⁴

Both the Consumer Advocate Division and United raised reasonable arguments regarding the statutory language in question. Under Tennessee law, when a statute is not clear on its face and thus ambiguous, resort may be made to the legislative history.⁵ When confronted with statutory language that conveys more than one meaning, courts may consider the legislative debate surrounding the statute's enactment.⁶

It is evident from the legislative transcripts of floor debates submitted by the parties that the intent of the Tennessee General Assembly was to exclude directory assistance as a Basic service. One of the reasons for this exclusion, based on the legislative history, was that directory assistance was thought to be a competitive service.

The legislative transcripts of floor debates submitted by each of the parties revealed that the legislators who chose to speak on the issue of whether directory assistance was a Basic or Non-Basic service, including but not limited to Senators Rochelle and Gilbert, each understood that under the language of what is now the law,

⁴ See page 3 of Mr. Parrott's pre-filed rebuttal testimony, filed on February 24, 1997.

⁵ See City of Oak Ridge v. Roanne County, 563 S.W.2d 895, 899 (Tenn. 1978).

⁶ See In Re Conservatorship of Clayton, 914 S.W.2d 84, 90 (Tenn. App. 1995) and Owens v. State of Tennessee, 908 S.W.2d 926 (Tenn. 1995).

directory assistance was not a Basic service. For example, as set forth in the brief of the Consumer Advocate regarding directory assistance, Senator Gilbert stated that with respect to whether the bill would allow telecommunication service providers to charge for directory assistance, "I think the answer is under this bill they be permitted to do it without PSC approval."⁷ Comments by other legislators support the understanding articulated by Senator Gilbert.

Additionally as set forth in the post hearing brief of United, the floor comments of Representative Purcell clearly show that the "level of quality" phrase in Tenn. Code Ann. § 65-5-208(a)(1) was intended to ensure the integrity of voice and data transmissions over the public network as opposed to prohibiting an increase in price. Accordingly, the Authority by majority vote concludes that directory assistance is a Non-Basic service under state law, with Director Kyle dissenting.

United's proposed tariff for directory assistance provides for three free inquiries with up to two numbers per inquiry per monthly billing period for residential and business access lines. After the first three inquiries, a charge of 29 cents will be applied per inquiry.

United's proposed tariff also provided that residence customers unable to use the telephone directory due to a visual or physical disability that has been confirmed by a physician, appropriate group, or agency, and inquiries made from pay telephone service locations are exempt from directory assistance charges. The Consumer Advocate Division pointed out, however, that United's exemption from directory assistance charges

⁷ See the floor debate transcripts regarding Senate Bill 891 at page 39, attached as Exhibit 1 to the brief of BellSouth Telecommunications, Inc., filed on March 21, 1997. The Directors took official notice of the legislative history (which includes the transcripts of the floor debates) without objection by the parties at the Authority Conference held on May 20, 1997.

to individuals with visual or physical disabilities does not extend to those individuals' places of employment.

Additionally, the Consumer Advocate Division pointed out, and the company did not disagree, that at any given point during the year, there are some listed phone numbers that are not available in printed directories. Accordingly, the Authority finds that the company's directory assistance tariff be amended and that United file revisions to its directory assistance tariff to include an increase in the directory assistance free call allowance up to six inquiries with an allowance of two telephone numbers per inquiry for residence and business access lines per billing period to mitigate the effect of the unavailability of listed numbers in printed directories.

Further, the Authority orders that United extend the exemption from directory assistance charges for customers unable to use the telephone directory due to a visual or physical disability that has been confirmed by a physician, appropriate group, or agency to their places of business. United shall provide an additional exemption from directory assistance charges for residential customers who are 65 years or older upon request and with satisfactory proof of age.

The Authority also orders that United inform customers about its printed directory policy for local calling areas through directory assistance preamble, annual bill inserts, and press releases; and, that United inform customers about the new charges for directory assistance by providing a recorded message at the outset of the directory assistance call and by allowing the customer to hang up without incurring a charge for a period of three months after the effective date of this tariff in addition to issuing bill inserts and press releases about the new charges.

The Authority also directs that the staff follow-up with IXCs to assure the flow-through of all access rate reductions in a manner consistent with existing Authority policy and shall recommend further action by the Authority, if necessary. Additionally, by majority vote, the Authority hereby approves United's tariff with the above stated amendments, with Director Kyle dissenting.

IT IS THEREFORE ORDERED:

1. That a complaint regarding United's five line and above tariff is more properly a matter to be addressed in a separate complaint and/or Docket No. 96-01422;
2. That United is obligated to interpret and apply the provisions of Section U2.3.5 as contained in its October 25, 1995, tariff in a manner consistent with the tariff language contained in its tariff Section U2.3.5(c)6 as in effect on June 6, 1995.
3. That United's tariff revisions to obsolete ABC service and introduce Centrex service in Docket 96-01492 are legal;
4. That 911 emergency services, including ANI, ALI and Selective Routing, are considered Basic services under Tenn. Code Ann. § 65-5-208(a);
5. That all educational discounts are considered Basic services under Tenn. Code Ann. § 65-5-208(a);
6. That all ABC Service lines, whether or not associated with a NAR, are considered Basic services under Tenn. Code Ann. § 65-5-208(a);
7. That directory assistance is a Non-Basic service under Tenn. Code Ann. § 65-5-208(a) and that United shall comply with the notice requirements set forth above in connection with its implementation of a directory assistance charge;

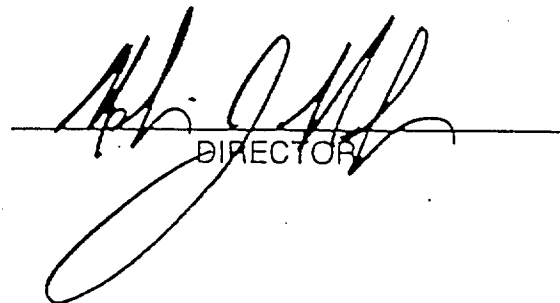
8. That the methodology to be applied in determining the maximum annual price adjustment for United under Tenn. Code Ann. § 65-5-209 is the methodology hereinabove approved;
9. That United shall file revisions to the classification of Basic and Non-Basic service revenues in the calculation of the maximum annual revenue adjustment as ordered above and these revisions will be reflected in the revised tariffs filed by United;
10. That United shall file revised directory assistance and access charge tariffs reflecting revisions consistent with this Order;
11. That any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order; and
12. That any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.


CHAIRMAN

DIRECTOR

ATTEST:


EXECUTIVE SECRETARY


DIRECTOR

*** Director Kyle concluded that directory assistance is a basic service and as a result, voted not to approve United's tariff.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

November 30, 1998

IN RE:

UTSE TARIFF NO. 97-361 TO REFLECT
THE 1997 PRICE CAP ADJUSTMENT

DOCKET NO.
97-01438

ORDER DENYING TARIFF NO. 97-361

This matter came before the Tennessee Regulatory Authority ("Authority") on the filing of Tariff No. 97-361 by UTSE Telephone-Southeast, Inc. ("UTSE"). The Tariff was originally filed September 11, 1997, with a proposed effective date of October 15, 1997. By various Orders of the Authority and action of the parties, the Tariff was suspended until its final consideration by the Directors at a regularly scheduled Authority Conference held on June 30, 1998.

BACKGROUND

UTSE's Tariff was filed pursuant to Tenn. Code Ann. § 65-5-209(e). This Section permits price regulated telephone companies such as UTSE to adjust prices for non-basic services so long as the annual adjustments do not exceed certain limitations imposed under Tenn. Code Ann. § 65-5-209. Consistent with the Price Cap Indexing Methodology¹

¹ Price Cap Indexing Methodology implements the provisions of Tenn. Code Ann. § 65-5-209 that limit the annual change in rates for certain telecommunications services to the lesser of one-half (1/2) the annual percentage change in the Gross Domestic Product Price Index (GDP-PI) for the preceding year or GDP-PI from the preceding year less two (2) percentage points. Once the limitation is established, then, revenues at current year prices are divided by revenues at 1995 prices forming the Service Price Index ("SPI"). This is then compared to the cumulative change in prices allowed by § 65-5-209 as reflected in the Price Regulation Index ("PRI"). In addition, the limitation on rate changes applies to both basic and non-basic

stipulated to by the parties and approved by the Authority on May 20, 1997, in Docket No. 96-01423,² the adjustments contained in this Tariff would permit UTSE to increase its revenues by \$42,000. To generate this revenue increase, UTSE proposes to increase rates for the residential integrated digital services network ("ISDN"), call forwarding, custom calling packages, operator surcharges, and Operator Verification/Interruption services. These proposed increases total \$345,000. UTSE also proposes rate decreases for business ISDN and switched access totaling \$303,000, thus netting a \$42,000 increase in revenues.

On October 7, 1997, the Directors suspended this Tariff and requested legal briefs on the issue of whether ISDN should be classified as a basic or a non-basic service under Tenn. Code Ann. § 65-5-208(a). Both the Consumer Advocate Division, Office of the Attorney General ("Consumer Advocate") and UTSE filed their initial briefs.³ On December 2, 1997, the Directors requested the parties to further delineate the issues by filing a proposed list of issues no later than December 12, 1997. UTSE filed a letter concerning its statement of issues. A copy of that letter is attached hereto as Exhibit B. The Advocate did not file such a letter and did not join with UTSE in the issues it presented.

On February 3, 1998, at a regularly scheduled Authority Conference, the Directors appointed the General Counsel or his designee to serve as Hearing Officer for this case so

services, however, a company operating under price regulation cannot increase rates for basic services for the first four (4) years of its price regulation plan. See Tenn. Code Ann. §§ 65-5-209(c) and (f).

² A copy of the Final Order in Docket No. 96-01423 is attached hereto as Exhibit A.

³ The Consumer Advocate was granted intervention on December 2, 1998.

that a procedural schedule could be set and this matter could be brought to resolution. The Authority also resuspended the tariff for an additional sixty (60) days.

A notice setting the Pre-Hearing Conference for March 12, 1998, was issued on February 24, 1998. In the notice, the parties were encouraged to submit a statement of issues to be discussed and refined at the Pre-Hearing Conference. UTSE responded with a one paragraph letter which stated:

From UTSE Telephone South-East, Inc.'s view there are no issues in this docket. However, the TRA staff has raised a question about whether ISDN-BRI is a basic service or not under price regulation. UTSE's position that it is a non-basic service and its reasons therefor were stated in its Brief filed October 27, 1997.

A copy of UTSE's letter is attached as Exhibit C. The Consumer Advocate again chose not to file such a letter. However, when the issue stated above was considered, neither party chose to add any new issues to be considered in the context of this proceeding. Thus, the issue as characterized by UTSE was considered and briefed extensively by the parties. In addition, both parties stated that they viewed this issue as one of law and policy and stated that there were no issues of fact before the Authority in this matter. In accordance with the procedural schedule adopted at the Pre-Hearing Conference, the parties filed additional briefs and presented oral arguments on the issue of whether ISDN constitutes a basic or non-basic service before the Authority on April 7, 1998.

PRICE REGULATION

UTSE elected to be regulated as a price regulated company effective October 15, 1995, as set forth in the Tennessee Public Service Commission's Orders dated September 20, 1995, and October 13, 1995, in Docket No. 95-02615. This election was authorized under Tenn. Code Ann. §§ 65-5-208 and 65-5-209.

The maximum annual increase in rates permitted by UTSE as a price regulated company is governed by Tenn. Code Ann. § 65-5-209(e) which states as follows:

(e) A price regulation plan shall maintain affordable basic and non-basic rates by permitting a maximum annual adjustment that is capped at the lesser of one half (1/2) the percentage change in inflation for the United States using the gross domestic product-price index (GDP-PI) for the preceding year as the measure of inflation, or the GDP-PI from the preceding year minus two (2) percentage points. An incumbent local exchange telephone company may adjust its rates for basic local exchange telephone services or non-basic services only so long as its aggregate revenues for Basic local exchange telephone services or Non-Basic services generated by such changes do not exceed the aggregate revenues generated by the maximum rates permitted by the price regulation plan.

This Section permits a price regulated company to adjust rates for basic and non-basic services by an amount equal to the lesser of one-half (1/2) of the percentage change in the gross domestic product-price index (GDP-PI) for the preceding year or the GDP-PI from the preceding year less two (2) percent.

Although the foregoing Section of the Act permits adjustments in both basic and non-basic services, Tenn. Code Ann. § 65-5-209(f) prohibits a price regulated company from increasing rates for basic services during the first four (4) years it operates under price regulation. Since UTSE's Tariff includes increases relating to UTSE's third year as a price regulated company, the limitation in Tenn. Code Ann. § 65-5-209(f) applies to UTSE's basic service rates contained in that Tariff. Therefore, considering the limitations under the aforementioned section, the Authority must determine whether a service for which an increase is being sought is basic or non-basic. Tenn. Code Ann. § 65-5-208(a) defines "basic" and "non-basic" services as follows:

(1) "Basic local exchange telephone service" are telecommunications services which are comprised of an access line, dial tone, touch-tone and usage provided to the premises for the provision of two-way

switched voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area, Lifeline, Link-Up Tennessee, 911 Emergency Services and educational discounts existing on June 6, 1995, or other services required by state or federal statute. These services shall, at a minimum, be provided at the same level of quality as is being provided on June 6, 1995. Rates for these services shall include both recurring and nonrecurring charges.

(2) "Non-basic services" are telecommunications services which are not defined as basic local exchange services and are not exempted under subsection (b). . . (Emphasis supplied).

METHODOLOGY AND STIPULATION ADOPTED IN DOCKET NO. 96-01423

In Docket No. 96-01423, both UTSE and the Consumer Advocate filed a joint-stipulation on January 27, 1997, in which they agreed to the methodology and formula for use in calculating the amount of the annual price cap adjustment pursuant to Tenn. Code Ann. § 65-5-209(e). The methodology and formula contained in that stipulation was approved by the Authority in its Final Order entered in that docket on September 4, 1997.

UTSE argues in this immediate proceeding that the Authority classified ISDN as a non-basic service in Docket No. 96-01423 when it approved the stipulation between the Consumer Advocate and UTSE in which ISDN was listed in the non-basic category. Nonetheless, no party participating in that docket presented any arguments concerning whether ISDN was a basic or non-basic service. Accordingly, this issue was never specifically addressed by the Authority at that time.

WHETHER ISDN CONSTITUTES BASIC OR NON-BASIC SERVICE UNDER TENN. CODE ANN. § 65-5-208(a).

The only issue before the Authority in this matter is whether ISDN should be classified as a basic or non-basic service according to the price regulation statutes. UTSE and the Consumer Advocate presented oral argument before the Authority and filed briefs

in support of their respective positions. Under the proposed Tariff, if ISDN is considered to be a non-basic service as UTSE claims, residential ISDN rates will increase from approximately \$25 per month to \$65 to \$85 per month. UTSE will also apply a \$0.03 per minute charge for monthly usage above 200 hours. If ISDN is considered to be a basic service, as the Consumer Advocate argues, then rates for ISDN service cannot be increased for a period of four (4) years, or until October 15, 1999, according to state law.

UTSE contends, in support of its position that ISDN is a non-basic service, that basic service is in effect limited to an analog voice grade line while ISDN is a network architecture that provides digital communication transmissions. UTSE contends that ISDN provisioning is not possible over existing voice grade analog copper lines.

UTSE also argues that since the statutory definition of basic services refers to voice grade facilities, ISDN does not fall within the definition of a basic service under Tenn. Code Ann. § 65-5-208(a). UTSE further asserts that in making its decision, the Authority should consider the fact that the 1996 annual price cap adjustment stipulation entered into with the Consumer Advocate and approved by the Authority in Docket No. 96-01423 included a categorization of ISDN as a non-basic service.

The Consumer Advocate contends that ISDN meets the definition of a basic service in Tenn. Code Ann. § 65-5-208(a)(1) because it is comprised of an access line and involves usage provided to the premises for the provision of two-way switched voice or data transmission over voice grade facilities.

After reviewing the record and the pleadings in this proceeding, a majority of the Directors find that UTSE's argument that ISDN is a non-basic service is not persuasive.

UTSE's classification cannot be endorsed because when taken to its logical end, it would require that all technological advances which result in network performance beyond the minimal quality standards acceptable to be considered voice grade be treated as non-basic services.⁴ Voice grade service, however, can be provisioned over analog or digital facilities. ISDN provides voice communications, in fact a higher quality voice communication than non-ISDN lines. Since no party presented a generally accepted definition of voice grade facilities, the Authority has interpreted the term literally as "capable of handling voice communications." However, this interpretation is not meant to be taken in any way by the parties to indicate that the quality standard required by Tenn. Code Ann. § 65-5-208(a) is somehow diminished. The Authority will not permit inferior quality connections simply because they are capable of transmitting voice traffic.

In addition, the majority's finding that ISDN is a basic service is based not only on the legal analysis of the arguments and the positions of the parties herein but also on our reliance on our own practical and technical knowledge and experience in the field of utility regulation. This agency's ability to rely on such knowledge and experience is a basic principle recognized by the courts of this state. Specifically, the courts have stated that administrative agencies can and should rely upon their internal sources of technical expertise in making an informed decision in cases pending before them. *See CF Industries v. Tenn. Pub. Serv. Comm.*, 599 S.W.2d 536, 543 (Tenn. 1980).

⁴ The Consumer Advocate's argument that the analog network has evolved into a digital network, and that as a result virtually all of the network is digital, including switches and interoffice transport, has merit. Under this view, if UTSE's argument that ISDN is non-basic because it is provisioned over digital facilities is taken to the extreme, all lines, not only ISDN lines, which are provisioned over digital facilities would be classified as non-basic. Therefore, under UTSE's position, all subscribers served from digital central offices must be receiving non-basic service, however, such a position would violate Tenn. Code Ann. §§65-5-208 and 65-5-209, and therefore, cannot stand.

Further, the majority has determined that UTSE's position is a direct affront to Tenn. Code Ann. § 65-4-123, which contemplates and encourages technological advances in the telecommunications infrastructure.⁵ Transitioning from an analog to a digital world does not equate to abandoning the voice grade world; it improves it.

UTSE's position that the stipulation it entered into with the Consumer Advocate in Docket No. 96-01423 is tantamount to the Authority's acceptance of all categorizations entered into therein is in error. Merely attaching a schedule of the services offered by UTSE with the stipulation in that docket does not equate to a finding by this body on the issue of whether ISDN is a basic or non-basic service.⁶ The status of ISDN was not a

⁵ Tenn. Code Ann. § 65-4-123 declares the policy goals of the General Assembly as follows:

The general assembly declares that the policy of this state is to foster the development of an efficient, technologically advanced, statewide system of telecommunications services by permitting competition in all telecommunications services markets, and by permitting alternative forms of regulation for telecommunications services and telecommunications services providers. To that end, the regulation of telecommunications services and telecommunications services providers shall protect the interests of consumers without unreasonable prejudice or disadvantage to any telecommunications services provider; universal service shall be maintained; and rates charged to residential customers for essential telecommunications services shall remain affordable.

⁶ The majority of the Directors determined that the schedule attached to the stipulation which identified ISDN as a non-basic service was not part of the stipulation for the purpose of the parties expressing their agreement to the Price Cap Indexing Methodology. However, even assuming that the schedule should be construed as a part of the stipulation, this adjudicatory body is not bound by a stipulation that includes an erroneous interpretation of the law. See Wilson v. Gauck, 421 N.W.2d 582 (Mich. App. 1988), in which the Michigan Court of Appeals states as follows:

Stipulations as to facts were expressly approved by the Supreme Court in Dana Corp v. Employment Security Comm. 371 Mich. 107, 110, 123 N.W.2d 277 (1963), where the Court said:

"To the bench, the bar, and administrative agencies, be it known herefrom that the practice of submission of questions to any adjudicating forum, judicial or quasi-judicial on stipulation of fact, is praiseworthy in proper cases. It eliminates costly and time-consuming hearings. It narrows and delineates issues. But once stipulations have been received and approved they are sacrosanct. Neither a hearing officer nor a judge may thereafter alter them. This holding requires no supporting citation. The necessity of the rule is apparent. A party must be able to rest secure on the premise that the stipulated facts and stipulated ultimate conclusionary facts as accepted will be those upon which

contested issue in that docket. Further, in dealing with this issue the Directors carefully reviewed and considered the transcripts of the Pre-Hearing Conferences and the Reports of the Hearing Officer pertaining to the stipulation entered into between the parties. After concluding the review of this material, the majority determined that the stipulation was in fact entered into between the parties to resolve the issue pertaining to methodology and not how services should be classified under Tenn. Code Ann. § 65-5-208. The stipulation was an agreement between the parties in the previous docket to resolve a dispute purely over the methodology and does not bind the Authority or the parties in subsequent proceedings as to the issues not raised in that docket. It is the duty of this agency to exercise its sound judgment to determine what constitutes basic and non-basic service under Tenn. Code Ann. § 65-5-208, and regardless of the arguments and assertions made by UTSE, the Authority will not permit a statement made in an attached schedule to usurp this duty. Finally, the majority also finds that ISDN basic rate interface falls squarely within the statutory language of Tenn. Code Ann. § 65-5-208(a)(1) because it is "comprised of an access line, dial tone, touch-tone and usage provided to the premises for

adjudication is based. Any deviation therefrom results in a denial of due process for the obvious reason that both parties by accepting the stipulation have been foreclosed from making any testimonial or other evidentiary record."

While this language appears to establish an absolute rule as to the effect of stipulations, there are some exceptions. A stipulation will not be construed to effect the waiver of a right unless such an intent is plainly indicated. In re Colc Estate, 120 Mich.App. 539, 328 N.W.2d 76 (1982). The trial court also has the discretion to set aside a stipulation when an injury would result to one party and nonenforcement would not materially prejudice the other party. Wechsler v. Zen, 2 Mich.App. 438, 140 N.W.2d 581 (1966). In addition, the parties may not bind a court by a stipulation to an erroneous interpretation of law. Magreta v. Ambassador Steel Co., 378. (Emphasis supplied). *Id.* at 585.

If considered as part of the stipulation, the schedule that classified ISDN as a non-basic service in another docket erroneously interprets Tenn. Code Ann. § 65-5-208.

the provision of two-way switched voice or data transmission over voice grade facilities.”

Thus, the majority has determined that UTSE's Tariff No. 97-361 filing to reflect the annual price cap adjustment should be denied.⁷

IT IS THEREFORE ORDERED THAT:

1. ISDN constitutes a basic service under Tenn. Code Ann. § 65-5-208(a)(1);
2. The methodology to be applied in determining the maximum annual price adjustment for UTSE under Tenn. Code Ann. § 65-5-209 shall be the methodology approved in Docket No. 96-01423;
3. UTSE's Tariff No. 97-361 is denied;
4. UTSE shall file revisions to the classification of basic and non-basic service revenues in the calculation of the maximum annual revenue adjustment as ordered above and these revisions will be reflected in the revised tariffs filed by UTSE;
5. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from the date of this Order; and

⁷ Chairman Greer voted not to support the majority's decision because he supported UTSE's position that the Consumer Advocate was bound by the stipulation entered into between the parties in Docket No. 96-01423, which categorized ISDN as a non-basic service. In that Docket, the Chairman served as the Hearing Officer and had the responsibility to prepare the matter for a contested case proceeding before the Directors of the Authority. While serving in this capacity, the Chairman presided at a Pre-Hearing Conference held on December 17, 1996, in which the Consumer Advocate had agreed to be bound by the stipulation. Therefore, based upon this experience, the Chairman expressed his belief that since the Consumer Advocate had failed to take issue with UTSE's classification of ISDN in the confines of the stipulation and also failed to have any other discussion regarding the classification of basic services, the Consumer Advocate is now foreclosed from raising a contrary position.

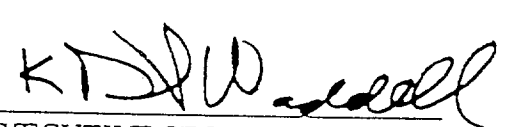
6. Any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

CHAIRMAN


DIRECTOR


DIRECTOR

ATTEST:


EXECUTIVE SECRETARY

**** See *infra* note 7.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

SEP - 4 1997

NASHVILLE, TENNESSEE

IN RE:

UNITED TELEPHONE-SOUTHEAST, INC.)	Docket No.
TARIFF NO. 96-201 TO REFLECT ANNUAL)	96-01423
PRICE CAP ADJUSTMENT)	

ORDER APPROVING IN PART AND DENYING IN PART TARIFF NO. 96-201

This matter is before the Tennessee Regulatory Authority ("Authority") upon receipt of the above captioned tariff filing by United Telephone-Southeast, Inc. ("United" or the "Company"). The tariff was originally filed September 12, 1996, with a proposed effective date of October 15, 1996. By various Orders of the Authority, the tariff was suspended until June 6, 1997.

The filing was made pursuant to Tenn. Code Ann. § 65-5-209(e). This Section permits price regulated telephone companies such as United to adjust prices for Non-Basic services so long as the annual adjustments do not exceed certain limitations imposed by Tennessee law. The filing sought approval of revenue adjustments which result from a proposed charge for directory assistance and proposed reductions in certain access charge rates.

Petitions to intervene were filed by the Consumer Advocate Division, Office of the Attorney General ("Consumer Advocate" or "Advocate"), Citizens Telecommunications Company of Tennessee, L.L.C. ("Citizens"), BellSouth Telecommunications, Inc., ("BellSouth"), and AT&T Communications of the South-Central States, Inc. ("AT&T"). All of the Petitions to intervene were granted.



By Order and Notice dated December 5, 1996, the Authority appointed Chairman Lynn Greer as Hearing Officer. Pre-Hearing Conferences were held in the above-captioned matter on Tuesday, December 10, 1996, Tuesday, December 17, 1996, and Tuesday, January 14, 1997, in Nashville, Tennessee. The parties were represented by counsel as follows:

JAMES B. WRIGHT, Senior Attorney, United, 14111 Capital Boulevard, Wake Forest, North Carolina 27587-5900, appearing on behalf of United.

L. VINCENT WILLIAMS, Consumer Advocate, 426 Fifth Avenue N., 2nd Floor, Cordell Hull Building, Nashville, Tennessee 37243-0500, appearing on behalf of the Consumer Advocate.

GUY M. HICKS, General Counsel-Tennessee, BellSouth Telecommunications, Inc., 333 Commerce Street, Suite 2101, Nashville, Tennessee 37201-3300, appearing on behalf of BellSouth.

RICHARD M. TETTELBAUM, Associate General Counsel, Citizens Telecommunications Company of Tennessee, L.L.C., Suite 500, 1400 16th Street, N.W., Washington, DC 20036, appearing on behalf of Citizens.

JOHN KNOX WALKUP, and VAL SANFORD, Gullett, Sanford, Robinson & Martin, 230 Fourth Avenue North, 3rd Floor, Nashville, TN 37219-8888, and JIM LAMOUREAX, Attorney, AT&T Corporation, 1200 Peachtree Street, NE, Atlanta, GA 30309, appearing on behalf of AT&T.

At the December 10, 1996, Pre-Hearing Conference, the parties agreed that a Protective Order was appropriate for use in this proceeding. A proposed Protective Order was submitted to the parties herein for approval. Subsequent to approval by the parties, the Protective Order was approved by the Authority at its December 17, 1996, Agenda Conference. Extensive discovery was conducted by the parties throughout the proceedings pursuant to agreed upon schedules.

The parties met informally on different occasions in an attempt to reach agreement with respect to the methodology for calculating the maximum annual price adjustment.

Preliminary agreement as to methodology was reported to the Hearing Officer at the December 17, 1996, Pre-Hearing Conference. By letter dated January 27, 1997, a written Stipulation among all the parties as to certain aspects of methodology was submitted to the Hearing Officer for approval. The Stipulation was recommended for approval by the Hearing Officer in his Initial Order dated January 27, 1997, and approved by the Authority at its February 4, 1997, Authority Conference.

On January 28, 1997, United filed revised tariffs and supporting data to reflect the agreed upon methodology contained in the Stipulation. In the revised filing, United calculated a maximum annual adjustment of \$67,151. United's revised tariffs proposed a directory assistance charge of 29 cents per inquiry for residence and business access lines, with an allowance of three inquiries per billing period without a charge. A customer could inquire and receive two numbers during each inquiry. The directory assistance charge was designed to increase revenues by \$1,167,063.

United also proposed a reduction in certain access charges. The Company proposed a reduction in the switched access interconnection charge of \$296,252 decreasing the rate from .00348 cents to .002058 cents per minute of use. United additionally proposes a reduction in the carrier common line terminating rate of \$803,660 decreasing it from .025110 cents to .018570 cents per minute of use. The parties prefiled testimony pursuant to an agreed schedule. Direct testimony was filed February 14, 1997, rebuttal testimony was filed February 21, 1997, and surrebuttal testimony was filed February 26, 1997. A hearing was held on March 11, 1997, pursuant to the Authority's February 28, 1997, Order and as set forth in the Authority's February 24, 1997, Notice of Hearing.

At the close of the March 11, 1997, hearing, the parties were instructed to file post-hearing briefs regarding the legislative history of Tenn. Code Ann. § 65-5-208 as it related to directory assistance. In response to the Authority's request, various briefs, motions and other pleadings and documents were filed by the parties. The resolution of the motions and the disposition of the briefs and other pleadings were addressed in the Authority's Order dated May 1, 1997. The May 1, Order limited the filing of post-hearing briefs to the directory assistance issue as originally requested by the Authority.

On May 20, 1997, the Directors considered the issues raised in this case. Chairman Greer, as Hearing Officer, read the charges of law to the Directors pursuant to the provisions of Tenn. Code Ann. § 4-5-301. The Hearing Officer identified eight issues. The Directors' discussion, findings of fact, and conclusions of law as to the standards to be followed under the price regulation statutes, the appropriate annual revenue adjustment and the eight identified issues were as follows:

Price Regulation

United elected to be regulated as a price regulated company effective October 15, 1995, as set forth in the Tennessee Public Service Commission's Orders dated September 20, 1995, and October 13, 1995, in Docket No. 95-02615. This election was authorized by the enactment of Public Chapter 408 that became effective on June 6, 1995 (the "Act").

The maximum annual increase in rates permitted by United as a price regulated company is governed by Tenn. Code Ann. § 65-5-209(e) which reads as follows:

(e) A price regulation plan shall maintain affordable Basic and Non-Basic rates by permitting a maximum annual adjustment that is capped at the lesser of one half (1/2) the percentage

change in inflation for the United States using the gross domestic product-price index (GDP-PI) for the preceding year as the measure of inflation, or the GDP-PI from the preceding year minus two (2) percentage points. An incumbent local exchange telephone company may adjust its rates for Basic local exchange telephone services or Non-Basic services only so long as its aggregate revenues for Basic local exchange telephone services or Non-Basic services generated by such changes do not exceed the aggregate revenues generated by the maximum rates permitted by the price regulation plan.

This Section permits a price regulated company to increase rates for Basic or Non-Basic services by an amount equal to the lesser of one half the inflation rate or the inflation rate less two percent. Consistent with the Stipulation and based on the methodology approved by this Authority herein, the Authority finds that the maximum annual revenue adjustment for United for the twelve month period October 15, 1995, to October 14, 1996, is .4 percent or \$67,151 annually.

Although the foregoing Section of the Act permits increases in both Basic and Non-Basic services, another provision of Tennessee law prohibits a price regulated company from increasing Basic services for the first four years it operates under price regulation. This limitation is in Tenn. Code Ann. § 65-5-209(f). Since United is proposing increases relating to its second year as a price regulated company, the limitation in Tenn. Code Ann. § 65-5-209(f) applies to United's Basic service rates. It is thus critical to determine whether a service is Basic or Non-Basic in order to determine the amount of the maximum annual adjustment permitted for each category of service. Tenn. Code Ann. § 65-5-208(a) defines these terms as follows:

(1) Basic local exchange telephone service are telecommunications services which are comprised of an access line, dial tone, touch-tone and usage provided to the premises for the provision of two-way switched voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area,

Lifeline, Link-Up Tennessee, 911 Emergency Services and educational discounts existing on June 6, 1995, or other services required by state or federal statute. These services shall, at a minimum, be provided at the same level of quality as is being provided on June 6, 1995. Rates for these services shall include both recurring and nonrecurring charges.

(2) **Non-Basic services** are telecommunications services which are not defined as basic local exchange services and are not exempted under subsection (b). . .

Issue 1: Methodology

The parties to this docket filed a stipulation on January 27, 1997, in which they agreed to the methodology and formula for use in calculating the amount of the annual price cap adjustment pursuant to Tenn. Code Ann. § 65-5-209(e). The methodology set forth is essentially the same as proposed by the staff of the Tennessee Public Service Commission for proposed new rule Chapter 1220-4-8, the local competition rules in 1995.

The Authority approves the methodology and formula for use in calculating the amount of the annual price cap adjustment pursuant to T.C.A. 65-5-209(e) as stipulated to by the parties to this docket.

Issue 2: Five Line Tariff

The first matter considered by the Directors on May 20, 1997, concerned a tariff filing by United, separate from this proceeding, which limited the number of access lines that could be charged a residential rate, to five per location.¹ A substantially identical proceeding involving a BellSouth tariff is pending in Docket No. 96-01422. The Directors

¹ As background, the five-line tariff, tariff number 95-217 was approved by the Tennessee Public Service Commission in October of 1995.

concluded that the Consumer Advocate Division's concerns regarding United's five line tariff was not properly before the Authority in this proceeding and the Consumer Advocate Division could pursue its concerns regarding United's tariff in a separate complaint and/or in the pending Docket No. 96-01422.

Issue 3: Secretarial Lines

When the Act went into effect on June 6, 1995, United had a tariff in effect regarding secretarial lines that provided, in Section U2.3.5(c)6, that a residence rate would apply to "secretarial line terminations of residence main service terminating as extension lines on the premises of a telephone answering bureau." On October 25, 1995, after United had entered into price regulation, the company revised its tariffs regarding residence and business classifications. This revision omitted the language previously contained in Tariff Section U2.3.5(c)6. The Authority finds that United is obligated to interpret and apply the provisions of Section U2.3.5 as contained in its October 25, 1995, tariff in a manner consistent with the tariff language contained in its tariff Section U2.3.5(c)6 as in effect on June 6, 1995.

Issue 4: ABC Service and Centrex Service

United offered a central office based business service called Advanced Business Connection Service ("ABC Service") on the date the Act went into effect, that is, on June 6, 1995. As the result of a complaint filed by a United business customer, a contested case regarding United's ABC Service was initiated (Docket No. 96-00462). Following an investigation and a hearing, a final Order was rendered by the Authority on October 3,

1996. The Authority entered a Supplemental Order dated January 22, 1997, modifying and approving a stipulation between the parties regarding ABC Service. These Orders required United, among other things, to revise the terms of its central office based service offering. United filed a tariff in response to these Orders. The subsequent tariff included the grandfathering of ABC Service and a revised service offering called Centrex. This tariff was approved by the Authority in Docket No. 96-01492 by Order dated January 22, 1997.

Copies of United's proposed tariffs to obsolete ABC Service and to introduce Centrex Service were originally filed in September, 1996, with a revision filed in December, 1996. The initial filing was served on the Consumer Advocate Division when filed. The Consumer Advocate Division did not intervene or otherwise participate in these filings at the time they were under consideration by the Authority. The Consumer Advocate Division has now raised a concern regarding whether approval of the Centrex tariff constituted an improper increase of a Basic service contained in the ABC Service tariff. The Authority finds that the Centrex Service is a unique bundling of products and pricing arrangements and therefore was not a service offered on June 6, 1995. As a new service, the Centrex tariff was specifically considered and approved by the Authority in a prior Docket and not found to be contrary to law. Accordingly, there is no legal support for the concern raised by the Consumer Advocate, and its complaints regarding United's obsoleting ABC Service and introducing Centrex Service. Therefore, the Advocate's complaints are hereby denied.

Issue 5: 911 Services

United proposed treating certain service elements of 911 Emergency Services as Non-Basic services. Specifically, United treated Automatic Number Identification (ANI), Automatic Location Identification (ALI), and Selective Routing as Non-Basic services. The Consumer Advocate contended all elements of 911 emergency services were Basic services under the Act, which specifically listed 911 emergency services as a basic local exchange service under Tenn. Code Ann. § 65-5-208. Section 65--5-208(a) of the Act states in relevant part:

"Basic local exchange telephone services" are telecommunications services which are comprised of an access line, dial tone, touch-tone and usage provided to the premises for the provision of two-way switched voice or data transmission over voice grade facilities of residential customers or business customers within a local calling area, Lifeline, Link-Up Tennessee, 911 Emergency Services and educational discounts existing on June 6, 1995, or other services required by state or federal statute. These services shall, at a minimum, be provided at the same level of quality as is being provided on June 6, 1995. Rates for these services shall include both recurring and nonrecurring charges. (Emphasis Added").

United's position was that in order for a service to be Basic service, it must have an access line, dial tone, touch-tone and usage. Since ANI, ALI and Selective Routing are features which do not contain all four elements, United concluded they could not be a part of Basic Services. United further argued that this provision sets forth everything that competing telecommunications service providers must offer when offering Basic local exchange service, and the only requirement with respect to 911 is to provide access to 911 emergency service, and not other elements or features. As a consequence, United argued, other elements and features associated with emergency services such as ANI and ALI are not a part of Basic service.

After careful consideration of the arguments of both parties, the evidence in the record, and the language of the statute in question, the Authority finds that notwithstanding the company's interpretation of this statute, the specific language in Tenn. Code Ann. § 65-5-208 is clear and unequivocal when it states that 911 Emergency Services are categorized as a Basic service. It appears from the plain language of these statutes that the legislature did not intend to limit 911 services to mere access to an operator, but instead wanted to provide access to all services associated with 911. Accordingly, the Authority concludes that 911 emergency services, including features such as ANI, ALI and Selective Routing, are Basic services under the Act.

Issue 6: Educational Discounts

Similar to the issue regarding 911 Emergency Services, United contended that a portion of the lines and features which were included as a part of its educational discounts offered on June 6, 1995, were Non-Basic services. United specifically argued that the private lines which were subject to educational discounts on June 6, 1995, were Non-Basic services. United again relied on its interpretation of Section 65-5-208 arguing that a Basic service must have an access line, dial tone, touch-tone and usage.

The Consumer Advocate asserted that all educational discounts existing on June 6, 1995, constitute Basic service as defined in Tenn. Code Ann. § 65-5-208. The Authority rejects United's arguments and accepts the Advocate's assertion that the General Assembly intended educational discounts to be classified as Basic service. In fact, the statute is clear and unambiguous because it specifically includes educational discounts in the list of services comprising basic local exchange telephone services.

Issue 7: ABC Service Lines

United contended that for its ABC Service, those lines in excess of the number of Network Access Registers ("NAR") should be considered as part of Non-Basic service. These ABC Service lines were considered by United as intercom lines. United distinguished intercom lines from access lines in that intercom lines did not allow connection to the switched network. Only when an ABC Service line was associated with a NAR did United believe the line had access to dial tone, usage and touch-tone into the local calling area under its interpretation of Tenn. Code Ann. § 65-5-208.

The Consumer Advocate Division witness noted that United's ABC Service tariff made no mention of an intercom line. The witness contended that all ABC Service are Basic, noting that all ABC Service lines were treated the same, based on the language United developed and placed in its tariff. In addition, the Company witness acknowledged that data transmission could occur using any of the ABC Service lines.

Although United's current tariffs or tariffs in effect on June 6, 1995, did not contain any rate or reference to ABC Service intercom lines, it now attempts to introduce a distinction between ABC Service lines with a NAR and those without a NAR. While a NAR is required to complete a call from an ABC line, a NAR is not directly associated with any one line. Therefore, all ABC Service lines have the same functionality for making and receiving outside calls. Thus, the Authority finds that allowing this distinction and subsequent classification of access ABC Service lines as a Non-Basic service is an indirect method of raising rates on an otherwise basic service. Accordingly, the Authority finds that all ABC lines with or without a NAR are Basic service.

Issue 8: Directory Assistance

United proposed a charge for directory assistance as Non-Basic service in this filing because, in its opinion, language in Tenn. Code Ann. § 65-5-208(a)(1) did not explicitly classify directory assistance as a Basic service. The Consumer Advocate argued that directory assistance was a part of Basic service when United entered price regulation on June 6, 1995. As a result, the four (4) year price cap limitation prohibited United from charging for directory assistance, since the rate on June 6, 1995, was zero.

Tenn. Code Ann. § 65-5-208(a)(1) of the Act defines Basic local exchange telephone service as "...an access line, dial tone, touch-tone, and usage provided to the premises for the provision of two-way switched voice or data transmission within a local calling area, Lifeline, Link-Up Tennessee, 911 emergency services, and educational discounts existing on June 6, 1995, or other services required by state or federal statute." United maintained that this definition contains no reference to directory assistance. Further, United cited Tenn. Code Ann. § 65-4-124(c) in support of its position on directory assistance.

Tenn. Code Ann. § 65-4-124(c) provides that the TRA shall promulgate rules that will "ensure that all telecommunication service providers, [such as United,] who provide basic local exchange telephone service or its equivalent shall provide each customer a basic White Pages directory listing, access to 911 Emergency Services, free blocking for 900/976-type services, access to telecommunications relay services, Lifeline, Link-Up, . . . and educational discounts existing on June 6, 1995." Directory assistance is not listed in Tenn. Code Ann. § 65-4-124(c).

Due to the omission by the legislature of the words "directory assistance" from the language of Tenn. Code Ann. §§ 65-4-124(c) and 65-5-208(a)(1), United maintained that directory assistance does not meet the statutory definition for Basic local exchange telephone service. According to United, it is properly identified as a Non-Basic service as defined in Tenn. Code Ann. § 65-5-208(a)(2), and as such is subject to a possible increase in price in accordance with Tenn. Code Ann. § 65-5-209(e).

The Consumer Advocate Division claimed that directory assistance is a Basic service under the term "usage" as found in Tenn. Code Ann. § 65-5-208(a)(1). Mr. Hickerson of the Consumer Advocate Division stated that, "Usage of directory assistance was included when a customer subscribed to either residential or business service and paid the Basic local exchange service rate as provided under the company's tariff approved by the Tennessee Public Service Commission."² He further stated that, "If the company now charges for directory assistance on a usage-sensitive basis, the customer is no longer receiving the level of service that was being provided when the customer paid the Basic rate charge on or before June 6, 1995."³ Thus, it was also the position of the Consumer Advocate that this alleged change in level of service violated Tenn. Code Ann. § 65-5-208(a)(1).

United rejected the Consumer Advocate Division's argument that the term "usage" in the statute has the meaning of usual, habitual, customary, or accepted practice. The company maintained that usage is solely related to a subscriber's access to the public switch network.

² See pages 13-14 of Mr. Hickerson's pre-filed direct testimony, filed on February 14, 1997.

³ See pages 14-15 of Mr. Hickerson's pre-filed direct testimony, filed on February 14, 1997.

Additionally, United disagreed with the Consumer Advocate Division's suggestion that price changes cause erosion in the level of quality of the service. United's witness, Mr. Parrott, testified that, "If a price change were to be judged as a change in the level of quality offered by the company, Tennessee law would not allow for any price changes. However, this is contrary to Tennessee law. Tenn. Code Ann. § 65-5-209 specifically permits and describes how price adjustments can be made for both Basic and Non-Basic services."⁴

Both the Consumer Advocate Division and United raised reasonable arguments regarding the statutory language in question. Under Tennessee law, when a statute is not clear on its face and thus ambiguous, resort may be made to the legislative history.⁵ When confronted with statutory language that conveys more than one meaning, courts may consider the legislative debate surrounding the statute's enactment.⁶

It is evident from the legislative transcripts of floor debates submitted by the parties that the intent of the Tennessee General Assembly was to exclude directory assistance as a Basic service. One of the reasons for this exclusion, based on the legislative history, was that directory assistance was thought to be a competitive service.

The legislative transcripts of floor debates submitted by each of the parties revealed that the legislators who chose to speak on the issue of whether directory assistance was a Basic or Non-Basic service, including but not limited to Senators Rochelle and Gilbert, each understood that under the language of what is now the law,

⁴ See page 3 of Mr. Parrott's pre-filed rebuttal testimony, filed on February 24, 1997.

⁵ See City of Oak Ridge v. Roanne County, 563 S.W.2d 895, 899 (Tenn. 1978).

⁶ See In Re Conservatorship of Clayton, 914 S.W.2d 84, 90 (Tenn. App. 1995) and Owens v. State of Tennessee, 908 S.W.2d 926 (Tenn. 1995).

directory assistance was not a Basic service. For example, as set forth in the brief of the Consumer Advocate regarding directory assistance, Senator Gilbert stated that with respect to whether the bill would allow telecommunication service providers to charge for directory assistance, "I think the answer is under this bill they be permitted to do it without PSC approval."⁷ Comments by other legislators support the understanding articulated by Senator Gilbert.

Additionally as set forth in the post hearing brief of United, the floor comments of Representative Purcell clearly show that the "level of quality" phrase in Tenn. Code Ann. § 65-5-208(a)(1) was intended to ensure the integrity of voice and data transmissions over the public network as opposed to prohibiting an increase in price. Accordingly, the Authority by majority vote concludes that directory assistance is a Non-Basic service under state law, with Director Kyle dissenting.

United's proposed tariff for directory assistance provides for three free inquiries with up to two numbers per inquiry per monthly billing period for residential and business access lines. After the first three inquiries, a charge of 29 cents will be applied per inquiry.

United's proposed tariff also provided that residence customers unable to use the telephone directory due to a visual or physical disability that has been confirmed by a physician, appropriate group, or agency, and inquiries made from pay telephone service locations are exempt from directory assistance charges. The Consumer Advocate Division pointed out, however, that United's exemption from directory assistance charges

⁷ See the floor debate transcripts regarding Senate Bill 891 at page 39, attached as Exhibit 1 to the brief of BellSouth Telecommunications, Inc., filed on March 21, 1997. The Directors took official notice of the legislative history (which includes the transcripts of the floor debates) without objection by the parties at the Authority Conference held on May 20, 1997.

to individuals with visual or physical disabilities does not extend to those individuals' places of employment.

Additionally, the Consumer Advocate Division pointed out, and the company did not disagree, that at any given point during the year, there are some listed phone numbers that are not available in printed directories. Accordingly, the Authority finds that the company's directory assistance tariff be amended and that United file revisions to its directory assistance tariff to include an increase in the directory assistance free call allowance up to six inquiries with an allowance of two telephone numbers per inquiry for residence and business access lines per billing period to mitigate the effect of the unavailability of listed numbers in printed directories.

Further, the Authority orders that United extend the exemption from directory assistance charges for customers unable to use the telephone directory due to a visual or physical disability that has been confirmed by a physician, appropriate group, or agency to their places of business. United shall provide an additional exemption from directory assistance charges for residential customers who are 65 years or older upon request and with satisfactory proof of age.

The Authority also orders that United inform customers about its printed directory policy for local calling areas through directory assistance preamble, annual bill inserts, and press releases; and, that United inform customers about the new charges for directory assistance by providing a recorded message at the outset of the directory assistance call and by allowing the customer to hang up without incurring a charge for a period of three months after the effective date of this tariff in addition to issuing bill inserts and press releases about the new charges.

The Authority also directs that the staff follow-up with IXCs to assure the flow-through of all access rate reductions in a manner consistent with existing Authority policy and shall recommend further action by the Authority, if necessary. Additionally, by majority vote, the Authority hereby approves United's tariff with the above stated amendments, with Director Kyle dissenting.

IT IS THEREFORE ORDERED:

1. That a complaint regarding United's five line and above tariff is more properly a matter to be addressed in a separate complaint and/or Docket No. 96-01422;
2. That United is obligated to interpret and apply the provisions of Section U2.3.5 as contained in its October 25, 1995, tariff in a manner consistent with the tariff language contained in its tariff Section U2.3.5(c)6 as in effect on June 6, 1995.
3. That United's tariff revisions to obsolete ABC service and introduce Centrex service in Docket 96-01492 are legal;
4. That 911 emergency services, including ANI, ALI and Selective Routing, are considered Basic services under Tenn. Code Ann. § 65-5-208(a);
5. That all educational discounts are considered Basic services under Tenn. Code Ann. § 65-5-208(a);
6. That all ABC Service lines, whether or not associated with a NAR, are considered Basic services under Tenn. Code Ann. § 65-5-208(a);
7. That directory assistance is a Non-Basic service under Tenn. Code Ann. § 65-5-208(a) and that United shall comply with the notice requirements set forth above in connection with its implementation of a directory assistance charge;

8. That the methodology to be applied in determining the maximum annual price adjustment for United under Tenn. Code Ann. § 65-5-209 is the methodology hereinabove approved;

9. That United shall file revisions to the classification of Basic and Non-Basic service revenues in the calculation of the maximum annual revenue adjustment as ordered above and these revisions will be reflected in the revised tariffs filed by United;

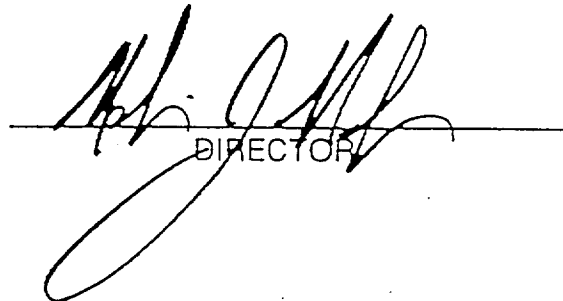
10. That United shall file revised directory assistance and access charge tariffs reflecting revisions consistent with this Order;

11. That any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order; and

12. That any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.


CHAIRMAN

DIRECTOR


DIRECTOR

ATTEST:


EXECUTIVE SECRETARY

*** Director Kyle concluded that directory assistance is a basic service and as a result, voted not to approve United's tariff.



'97 DEC 15 AM 11 30

Carolina Telephone
Centel-North Carolina
Centel-Virginia
United Telephone-Southeast

James B. Wright
Senior Attorney

December 12, 1997

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

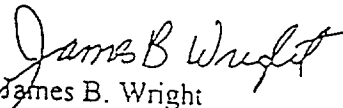
RE: Docket No. 97-01438 (UTSE Tariff 97-361 to reflect
1997 Price Cap Adjustment)

Dear Mr. Waddell:

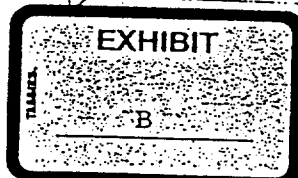
In response to the discussions held at the Tennessee Regulatory Authority's December 2, 1997 Agenda Conference, United Telephone-Southeast, Inc. (United) submits this letter as its statement of issues in the above case.

United filed its 1997 Price Cap Tariff in strict compliance with the methodology stipulated to by the parties in Docket No. 96-01423 (United's 1996 Price Cap Filing); which methodology and stipulation was subsequently approved by the TRA. The stipulation included a classification of all services as either Basic or Non-Basic. All parties, including the Consumer Advocate, were involved in the discussion and agreed on how each service would be defined. ISDN was defined as Non-Basic and accordingly, United's 1997 Price Cap Filing classifies the service as Non-Basic. Further, the issue of whether ISDN is a Basic service was addressed in Briefs submitted to the TRA on October 28, 1997. United maintains its position that ISDN is a Non-Basic service and that its 1997 Price Cap Filing accurately reflects that categorization.

Very truly yours,


James B. Wright

cc: Steve Parrott
Laura Sykora
Consumer Advocate



14111 Capital Boulevard, Wake Forest, North Carolina 27587-5900
Telephone: (919) 554-7587 Fax: (919) 554-7913



James B. Wright
Senior Attorney

REC'D TN
REGULATORY AUTH.
'98 MAR 6 AM 11:11
Carolina Telephone
Central-North Carolina
Central-Virginia
United Telephone-Southeast

OFFICE OF THE
EXECUTIVE SECRETARY
March 5, 1998

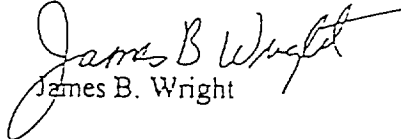
Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 372430-0505

RE: Docket No. 97-01438; Tariff by UTSE to Reflect the 1997 Annual Price Cap
Adjustment

Dear Mr. Waddell:

From United Telephone-Southeast, Inc.'s viewpoint there are no issues in this docket. However, the TRA Staff has raised a question about whether ISDN-BRI is a basic service or not under price regulation. United's position that it is a non-basic service and its reasons therefor were stated in its Brief filed October 27, 1997.

Sincerely,


James B. Wright

JBW:kbo



14111 Capital Boulevard, Wake Forest, North Carolina 27587-5900
Telephone: (919) 554-7587 Fax: (919) 554-7913

TENNESSEE
1998 PRICE REGULATION FILING

ATTACHMENT B

1998 PRI CALCULATION	
<u>Input:</u>	
Inflation Rate First Qtr 1997 vs. First Qtr 1998	1.2
<u>Calculation:</u>	
Step 1:	
Base Rate of 100	100
Step 2:	
Plus: The lessor of:	
1/2 Inflation Rate	0.6
or	
Inflation Rate - 2%	+ <input type="text" value="-0.8"/>
	= 99.2
Step 3:	
Divided by 100	0.992
Step 4:	
Multiplied by 1997 PRI (101.1028)	<input type="text" value="100.2940"/>

8. Supplementary Tables

Table 8.1.—Percent Change From Preceding Period in Selected Series
(Percent)

	1995	1997	Seasonally adjusted at annual rates							1995	1997	Seasonally adjusted at annual rates						
			1995		1997			1995				1997			1995			
			IV	I	II	III	IV	I	IV			I	II	III	IV	I		
Gross domestic product:																		
Current dollars	5.1	5.3	5.2	7.4	5.2	4.5	5.2	5.5	2.4	1.7	3.1	-9	3.4	-4	1.4	-5		
Chain-type quantity index	2.3	3.5	4.3	4.9	3.3	3.1	3.7	1.2	6.8	9.6	5.5	11.7	11.4	11.2	3.1	3.7		
Chain-type price index	2.5	2.0	1.5	2.4	1.8	1.4	1.4	1.2	9.1	14.2	5.3	17.9	20.5	14.5	5.3	17.1		
Implicit price deflator	2.3	2.0	1.5	2.4	1.8	1.4	1.4	1.1	-2.2	-3.5	0	-5.3	-7.5	-3.0	-2.1	-11.4		
Personal consumption expenditures:																		
Current dollars	5.0	5.3	5.3	7.5	2.0	7.2	3.7	5.5	6.3	9.3	7.2	10.5	11.5	12.1	3.1	3.5		
Chain-type quantity index	2.5	3.3	3.3	5.3	.9	5.5	2.5	5.0	9.5	15.1	7.7	15.7	22.9	15.4	5.2	12.5		
Chain-type price index	2.4	2.0	3.0	2.2	1.0	1.5	1.2	.5	-2.3	-4.5	-2	-5.3	-9.0	-2.9	-2.1	-12.5		
Implicit price deflator	2.4	2.0	2.9	2.2	1.0	1.5	1.2	.5	-2.3	-4.5	-2	-5.3	-9.0	-2.9	-2.1	-12.5		
Durable goods:																		
Current dollars	4.3	3.9	2.4	13.3	-3.2	15.0	-3	12.9	6.3	9.3	7.2	10.5	11.5	12.1	3.1	3.5		
Chain-type quantity index	4.7	5.5	3.5	14.1	-5.4	15.4	1.5	15.0	9.5	15.1	7.7	15.7	22.9	15.4	5.2	12.5		
Chain-type price index	-1.4	-1.6	-1.0	-7	-3.0	-2.5	-2.2	-1.3	-2.3	-4.5	-2	-5.3	-9.0	-2.9	-2.1	-12.5		
Implicit price deflator	-1.4	-1.6	-1.1	-7	-3.0	-2.5	-2.2	-1.3	-2.3	-4.5	-2	-5.3	-9.0	-2.9	-2.1	-12.5		
Non-durable goods:																		
Current dollars	4.0	3.7	5.5	7.2	-2.1	5.7	0	5.2	6.5	8.3	2.8	17.5	9.2	6.4	2.5	2.9		
Chain-type quantity index	1.4	1.5	2.1	4.7	-2.1	4.3	-1.2	5.5	5.5	9.4	2.1	24.2	8.9	10.1	3	5.5		
Chain-type price index	2.5	1.9	3.7	2.4	0	1.3	1.3	-1.3	1.1	-1.0	7	-5.1	2	-3.3	2.5	-5.3		
Implicit price deflator	2.5	1.9	3.7	2.4	0	1.3	1.3	-1.3	1.1	-1.0	7	-5.1	2	-3.3	2.5	-5.3		
Services:																		
Current dollars	5.7	5.5	7.4	5.5	5.5	5.4	5.0		3.5	3.5	2.5	3.1	4.5	2.5	3.1	-2.2		
Chain-type quantity index	2.7	3.5	3.5	3.5	3.5	3.5	4.4	4.0	3.5	3.5	2.5	3.1	4.5	2.5	3.1	-2.2		
Chain-type price index	2.5	2.5	3.4	2.5	2.4	2.5	1.9	1.9	3.3	2.4	2.5	3.5	1.4	1.4	2.1	1.0		
Implicit price deflator	2.5	2.5	3.4	2.5	2.4	2.5	1.9	1.9	3.3	2.4	2.5	3.5	1.4	1.4	2.1	1.0		
Gross private domestic investment:																		
Current dollars	7.5	11.3	7	15.5	17.2	2.7	11.3	25.7	2.1	3	-3.0	-1.1	7.5	-1.2	1.2	-3.3		
Chain-type quantity index	7.5	12.0	1.5	17.1	17.7	2.5	11.3	25.9	-1.3	-1.5	-5.2	-5.3	5.5	-1.1	-2.5	-10.0		
Chain-type price index	-1.2	-1.4	-1.5	-1.0	-1.5	-2	0	-2.4	3.4	2.4	2.5	4.5	1.3	.5	3.5	1.5		
Implicit price deflator	-1.2	-1.4	-1.5	-1.0	-1.5	-2	0	-2.4	3.4	2.4	2.5	4.5	1.3	.5	3.5	1.5		
Fixed investment:																		
Current dollars	5.2	7.7	2.5	3.0	12.4	14.7	1.5	15.4	2.4	-7	-4.7	-2.0	3.7	1.5	3.5	-15.3		
Chain-type quantity index	5.5	7.5	3.0	3.5	12.5	14.4	1.5	17.5	-1.3	-2.5	-7.1	-11.5	7.5	1.2	1.5	-12.5		
Chain-type price index	-1.1	-1.5	-1.4	-1.5	-2	-1.1	0	-1.5	3.5	2.4	2.5	4.5	1.1	.5	2.5	2.2		
Implicit price deflator	-1.1	-1.5	-1.4	-1.5	-2	-1.1	0	-1.5	3.5	2.4	2.5	4.5	1.1	.5	2.5	2.2		
Nonresidential:																		
Current dollars	5.1	5.4	4.4	2.1	12.5	15.2	-1.5	14.5	1.4	3.7	1.5	14.5	5.4	4.3	3.1	-		
Chain-type quantity index	5.2	5.5	5.5	4.1	14.5	15.2	-1.5	17.5	-1.5	1.2	-1.0	5.0	4.9	-5.7	-1.5	-3.7		
Chain-type price index	-1.0	-1.4	-1.5	-2.0	-1.5	-1.5	-1.0	-2.5	2.3	2.5	1.7	5.1	1.5	1.5	5.5	-7		
Implicit price deflator	-1.0	-1.4	-1.5	-2.0	-1.5	-1.5	-1.0	-2.5	2.3	2.5	1.7	5.1	1.5	1.5	5.5	-7		
Structures:																		
Current dollars	7.3	7.0	13.2	7	-1.0	11.2	1.7	4.4	4.5	4.5	5.5	2.5	4.1	5.0	1.5			
Chain-type quantity index	4.5	3.5	15.3	-2.1	-4.7	6.7	-2.3	-3.0	1.5	2.4	3.5	2.7	1.2	2.3	1.5			
Chain-type price index	2.3	3.3	2.5	2.5	3.9	4.2	4.1	2.7	3.2	2.3	2.5	2.7	1.5	1.7	3.1			
Implicit price deflator	2.3	3.3	2.5	2.5	3.9	4.2	4.1	2.7	3.2	2.3	2.5	2.7	1.5	1.7	3.1			
Producers' durable equipment:																		
Current dollars	8.4	8.5	-5	2.5	13.7	20.5	-3.0	20.4	5.2	5.3	5.5	5.5	4.4	6.3	3.5	5.0		
Chain-type quantity index	10.5	12.5	2.5	5.7	23.0	24.1	-3	25.4	2.5	3.1	4.5	3.0	2.5	4.7	2.5	3.7		
Chain-type price index	-2.3	-3.1	-3.0	-3.5	-3.5	-2.5	-2.5	-4.5	2.3	2.1	1.5	2.5	1.5	1.5	1.4	1.3		
Implicit price deflator	-2.3	-3.2	-3.0	-3.5	-3.5	-2.5	-2.5	-4.5	2.3	2.1	2.0	2.5	1.5	1.5	1.4	1.3		
Residential:																		
Current dollars	3.5	5.3	-1.5	5.4	11.1	5.0	12.0	17.5	5.2	5.3	4.5	7.9	4.5	5.7	4.5	7.7		
Chain-type quantity index	5.5	2.7	-4.3	3.3	7.4	2.7	9.1	15.5	2.5	4.1	2.5	5.9	3.7	4.3	3.4	7.6		
Chain-type price index	2.4	3.0	2.5	2.0	3.4	3.2	2.5	.5	2.2	1.7	2.4	1.5	.8	1.3	1.4	1.1		
Implicit price deflator	2.4	3.0	2.5	2.0	3.4	3.2	2.5	.5	2.2	1.7	2.3	1.9	.9	1.3	1.4	1.1		
Exports of goods and services:																		
Current dollars	5.4	9.5	20.4	5.0	17.5	2.3	5.0	-5.0	5.2	5.3	5.1	5.1	3.9	7.4	3.4	5.2		
Chain-type quantity index	8.3	12.5	25.5	5.5	13.4	4.4	5.3	-1.2	3.0	3.5	2.7	4.0	2.9	5.0	2.0	5.9		
Chain-type price index	-1.3	-2.2	-1.3	-1.5	-7	-2.0	-2.1	-4.5	2.2	1.5	2.4	2.0	.9	1.3	1.4	1.2		
Implicit price deflator	-1.3	-2.2	-1.3	-1.5	-7	-2.0	-2.1	-4.5	2.2	1.5	2.4	2.0	.9	1.3	1.4	1.2		
Exports of goods:																		
Current dollars	5.3	11.1	21.5	10.2	22.2	.5	10.1	-7.5	5.0	5.5	5.5	4.9	4.5	5.1	5.5			
Chain-type quantity index	5.5	15.4	30.7	12.5	25.1	3.4	14.1	-1.5	2.5	2.0	1.5	2.4	1.2	1.4	1.4	1.2		
Chain-type price index	-3.4	-3.7	-7.3	-2.1	-2.3	-2.5	-3.5	-5.5	2.3	2.0	1.5	2.4	1.5	1.4	1.4	1.1		
Implicit price deflator	-3.4	-3.7	-6.9	-2.1	-2.3	-2.5	-3.5	-5.5	2.3	2.0	1.5	2.4	1.5	1.4	1.4	1.1		
Exports of services:																		
Current dollars	3.0	6.3	17.1	2.7	5.7	5.5	-3.5	-1.0	2.5	3.5	-4.4	4.5	4.0	3.2	3.5	5.5		
Chain-type quantity index	5.5	5.1	13.5	3.7	3.2	7.2	-5.1	-1.5	4.7	4.5	-3.7	6.5	4.2	4.1	5.7	5.0		
Chain-type price index	2.4	1.7	3.1	-9	3.4	-4	1.4	-5	2.3	2.5	.7	4.5	3.1	2.5	4.5	4.5		
Imports of goods and services:																		
Current dollars	5.5	9.6	5.5	11.7	11.4	11.2	3.1	3.7	6.8	9.6	5.5	11.7	11.4	11.2	3.1	3.7		
Chain-type quantity index	9.1	14.2	5.3	17.9	20.5	14.5	5.3	17.1	9.1	14.2	5.3	17.9	20.5	14.5	5.3	17.1		
Chain-type price index	-2.2	-3.5	0	-5.3	-7.5	-3.0	-2.1	-11.4	-2.2	-3.5	0	-5.3	-7.5	-3.0	-2.1	-11.4		
Implicit price deflator	-2.2	-3.5	0	-5.3	-7.5	-3.0	-2.1	-11.4	-2.2	-3.5	0	-5.3	-7.5	-3.0	-2.1	-11.4		
Imports of goods:																		
Current dollars	6.3	9.3	7.2	10.5	11.5	12.1	3.1	3.5	6.3	9.3	7.2	10.5	11.5	12.1	3.1	3.5		
Chain-type quantity index	9.5	15.1	7.7	15.7	22.9	15.4	5.2	12.5	9.5	15.1	7.7	15.7	22.9	15.4	5.2	12.5		
Chain-type price index	-2.3	-4.5	-2	-5.3	-9.0	-2.9	-2.1	-12.5	-2.3	-4.5	-2	-5.3	-9.0	-2.9	-2.1	-12.5		
Implicit price deflator	-2.3	-4.5	-2	-5.3	-9.0	-2.9	-2.1	-12.5	-2.3	-4.5	-2	-5.3	-9.0	-2.9	-2.1	-12.5		
Imports of services:									</									

ATTACHMENT A

TENNESSEE
1998 PRICE REGULATION FILING

SERVICE PRICE INDEX (SPI) CALCULATION BY CATEGORY	June 1995 Rates June 1998 Volumes	June Annualized	Proposed Rates June 1998 Volumes	June Annualized
<u>Basic Revenues</u>				
General Subscriber Service Tariff	\$ 4,506,513.20	\$54,078,158.35	\$ 4,468,407.20	\$ 53,620,886.35
Total Basic Services	\$ 4,506,513.20	\$54,078,158.35	\$ 4,468,407.20	\$ 53,620,886.35
<u>Non - Basic Revenues</u>				
General Subscriber Service Tariff	\$ 2,697,397.38	\$ 32,368,768.59	\$ 2,729,643.52	\$ 32,755,722.24
Access Services Tariff	\$ 782,633.78	\$ 9,391,605.36	\$ 760,072.00	\$ 9,120,864.00
Directory Revenues	\$ 16,190.50	\$ 194,286.00	\$ 4,862.80	\$ 58,353.60
Miscellaneous Revenues	\$ 344,362.49	\$ 4,132,349.84	\$ 344,362.49	\$ 4,132,349.83
Total Non-Basic Services	\$ 3,840,584.15	\$ 46,087,009.79	\$ 3,838,940.81	\$ 46,067,289.72
TOTAL BASIC & NON-BASIC	\$ 8,347,097.35	\$ 100,165,168.14	\$ 8,307,348.01	\$ 99,688,176.07

PR/SPI Comparison			
Basic SPI Calculation	Proposed	\$ 53,620,886.35	
	Base	\$ 54,078,158.35	
	Result	0.9915	
	X 100	99.1544	
	1998 PRI	100.2940	
Non-Basic SPI Calculation	Proposed	\$ 46,067,289.72	
	Base	\$ 46,087,009.79	
	Result	0.9996	
	X 100	99.9572	
	1998 PRI	100.2940	